Austria ... Sch. 18	Indonesia ... Rp 2500	Portugal ... Esc 90
Bahrain ... Din 0.650	Italy ... L 1300	S. Arabia ... Rs 6.00
Belgium ... BFr 38	Japan ... Y550	Singapore ... S$ 4.10
Canada ... C$1.00	Jordan ... Fils 500	Spain ... Pta 110
Cyprus ... C£0.60	Kuwait ... Fils 500	Sri Lanka ... Rup 30
Denmark ... DKr 7.25	Lebanon ... £L 6.00	Sweden ... SKr 6.50
Egypt ... E£1.00	Luxembourg ... LFr 38	Switzerland ... SFr 2.20
Finland ... Fmk 6.00	Malaysia ... Ringt 4.25	Taiwan ... NT$ 85
France ... Fr 6.50	Mexico ... Pes. 300	Tunisia ... Din 0.600
Germany ... DM 2.20	Morocco ... Dh 6.00	Turkey ... L 210
Greece ... Dr 70	Netherlands ... Fl 2.50	U.A.E. ... Dh 6.50
Hong Kong ... HK$ 12	Norway ... Nkr. 6.00	U.S.A. ... $1.50
India ... Rup 15	Philippines ... Pes. 20	

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,577 — Monday March 18 1985 — D 8523 B

The day the doors stayed shut in Ohio, Page 14

World news

Athens fails to elect President

The Greek parliament failed in the first round to elect Mr Christos Sartzetakis, candidate of Pasok, the ruling Socialist Party, as president of the republic.

Mr Sartzetakis, a Supreme Court judge, needed a two-thirds majority in the 300-member parliament to get into the first of three rounds of voting, but only 178 MPs voted in his favour.

The result was disconcerting for the Government because it fell short of the 180 majority that would suffice to get Mr Sartzetakis elected in a third round on March 29. Page 16

Hijacker shot

A lone hijacker who seized a Saudi Arabian Boeing 737 airliner over Riyadh was shot dead by a security guard aboard the aircraft, the Gulf News Agency reported.

Belgian protest

Anti-nuclear campaigners held a rally in Brussels and called on the Belgian parliament to throw out the Government for having installed cruise missiles.

Missile offer

A Dutch farmer offered the Soviet Union his land as a site for SS-20 rockets should the Netherlands decide to deploy cruise missiles.

EEC opposed

The Liberation Movement for the Canary Islands said it opposed Spain's policy of making the islands and two Spanish enclaves in Morocco part of the EEC.

Tough expectations

Nigel Lawson, UK Chancellor of the Exchequer, is expected to present a tough budget tomorrow, emphasising the need to control inflation and attain financial targets. Page 6

Pretoria budget

Barend du Plessis, the South African Finance Minister, will present what is widely considered to be the most important but difficult budget for decades. Page 2

Price freeze

China published guidelines aimed at halting unauthorised price rises. The country is switching from strict central planning to a form of market economy.

Police drug ring

Six police officers in Sydney, Australia, are to be charged in relation to the alleged resale of A$750,000 ($521,000) worth of seized cannabis.

Police chief quits

A police chief in the northern Spanish city of León resigned after 300 of his men held a sit-in at their barracks to demand his dismissal, accusing him of "intolerable mistreatment and coercion" against them.

Algarve clampdown

Portugal is to increase police patrols and use a helicopter to combat crime in the Algarve region, a popular tourist area.

Accord revived

The Nkomati accord signed between South Africa and Mozambique a year ago has taken on a new lease of life after high-level talks between the two sides. Page 2

Meningitis outbreak

More than 250 people died in an epidemic of meningitis that has swept parts of northern India.

Singapore chief ill

Singapore's President Devan Nair is responding slightly to treatment in hospital for a serious liver condition.

Cycling record

Australia's Dean Woods broke the world record for the 4,000 metres cycling with a time of 4 min 34.653 sec.

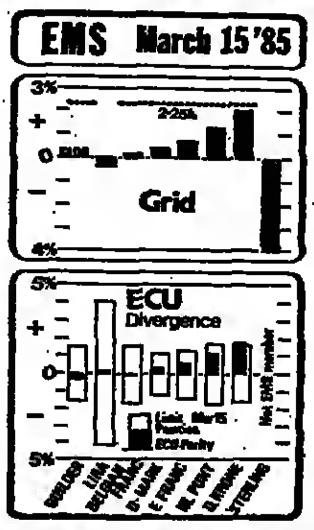
Business summary

Gandhi to introduce major tax cuts

MR RAJIV GANDHI, the Indian Prime Minister, introduced major cuts in personal and corporate taxation and a wide-ranging relaxation of industrial controls in an attempt to stimulate investment. India is heading for a near-record budget deficit of Rupees 33.49bn ($2.57bn) for 1985-1986. Page 2, 16

EUROPEAN Monetary System: Trading was rather confused within the EMS last week as the dollar tended to fluctuate sharply. The West German Bundesbank left its key lending rates unchanged despite speculation that renewed dollar strength would prompt a rise in rates. The Dutch guilder remained

EMS March 15 '85



the weakest currency, followed by the Belgian franc, although both were well within their divergence limits. The Danish krone was the strongest member, followed by the Irish punt. The Italian lira lost ground to be placed just above the Belgian franc and Dutch guilder.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO share prices rose in Saturday's half-day session, despite Wall Street's retreat. The Nikkei Dow market average rose 19.35 to 12,487.38.

ARBED, the Luxembourg steel company in which the Grand Duchy's government has a minority stake, reported a LuxFr 645m ($9.5m) net profit for 1984 against a LuxFr 2.4bn loss previously. The profit is the first for 10 years. Page 19

BRANIFF, the U.S. airline which was rescued from bankruptcy last March, lost $86.5m in its first year of operations, but its results in recent months have been improving rapidly. Page 19

VNESHTORGBANK, the Soviet foreign trade bank, is set to launch a £75m seven-year credit, believed to be its first publicly syndicated credit in sterling, through Lloyds Bank International. Page 17

SOUTH African Associated Newspapers reported an operating loss of R8.8m ($4.4m) in 1984, against a R9.6m profit previously, after failing to stem losses at the Rand Daily Mail, which is to cease publication. Page 19

PLASTICS prices across Europe are rising sharply after a long period of decline. Supply shortages are allowing producers such as ICI, Shell and BP to push through increases of 10 per cent and more. Page 16

ARGENTINA agreed to continue debt talks without breaking off relations with the IMF, although it has apparently failed to meet targets projected in a standby agreement. Page 3

UNITED Gulf Bank, a Kuwaiti-controlled Bahrain offshore banking unit, reported a consolidated loss of $5.4m for 1984 against a profit of $24.2m for 1983. The directors are seeking permission from the Bahrain Monetary Agency to separate UGB's banking and investment activities. Page 19

Fed in emergency talks over Ohio savings banks

BY PAUL TAYLOR IN CINCINNATI AND WILLIAM HALL IN NEW YORK

U.S. FEDERAL bank regulators, commercial bankers and Ohio State officials were still locked in emergency negotiations yesterday seeking a quick solution to the savings-bank crisis that has engulfed the Mid-western state. However, as talks continued throughout the weekend, doubts were increasing that the 71 local savings banks would be permitted to reopen today.

Since Friday morning when Mr Richard Celeste, the Governor of Ohio, ordered a three-day "bank holiday" to stem a run on the $4bn deposits of Ohio's 71 state chartered savings banks, officials have been working round the clock. Their aim has been to reopen the banks today and to alleviate the growing hardship being felt by more than half a million savers whose money has been frozen.

Ohio's move, thought to be the first in which a state has ordered such an extended "bank holiday" since the 1930's great depression, has already sent shockwaves through the U.S. financial system and might cause further nervousness in the U.S. financial markets if the savings banks fail to reopen today.

The crisis has underscored the vulnerability of the U.S. banking system to unexpected shocks. Officials hope that by reopening the banks as quickly as possible, it may restore confidence among the small depositors and prevent the panic withdrawals from spreading.

Such concerns spurred hundreds of federal bank examiners to descend on Ohio at the weekend in an attempt to contain the crisis, something they still hope to achieve. Several options are being looked at, including the extension of federal deposit insurance coverage to the closed banks, and a takeover by either a big money-centre bank or a local bank consortium.

Nevertheless, after almost 48 hours of continuous talks, Governor Celeste told reporters that there had been little progress.

Governor Celeste said he could give no guarantee when the savings banks would reopen.

The 44-year-old Ohio Governor, who has emerged as a central figure in the race to rescue the banks, said: "We are doing everything to get them open as soon as possible." However, he added that the savings banks would reopen only at a point "where we have confidence that they can command the confidence of depositors."

Among the principal developments at the weekend:

● About 200 federal bank examiners arrived in Ohio to pore over the books of the thrifts to discover whether, and under what conditions, they would be eligible for federal insurance. The 71 savings banks were covered by a private, state-backed insurance fund, the Ohio Deposit Guarantee Fund (ODGF), whose reserves have been seriously depleted by the collapse of Home State Savings and Loan, its biggest member, 10 days ago.

● Negotiations continued in an attempt to find a buyer for Home State, the $1.4bn Cincinnati savings bank that was forced to close after the collapse two weeks ago of ESM Government Securities, a small Florida bond dealer. Home State is owned by Mr Marvin Warner, aged 67, whose financial empire stretches from Florida to Ohio and has been badly affected by the collapse of ESM Government Securities.

● Citicorp, America's biggest banking group, flew in a team of officials to examine Home State's books ahead of a possible rescue attempt. Meanwhile, the Ohio State Senate stood ready to convene an emergency session, should changes in state banking laws be required to facilitate an out-of-state takeover.

Continued on Page 16

The day the doors stayed shut, Page 14; Flight to quality, Page 18

Mexico to absorb part of public sector debt

BY DAVID GARDNER IN MEXICO CITY

THE MEXICAN Government is to take over part of the domestic and foreign debt of loss-making public sector companies, which in exchange will have to submit to strictly monitored performance.

The Government is also considering an unprecedented scheme to allow the foreign creditors of some public sector companies to convert debt into equity.

Senior Mexican financial officials said the plan to lighten public sector companies' debt burden is part of a wider effort to enforce much stricter controls on public spending and to reduce the country's budget deficit.

The companies affected are likely to include Conasupo, the state food production and distribution company, Fertimex, the state fertiliser company, the railways and electricity board, and possibly the Mexico City administration, the DDF.

In return for having their debts wholly or partially written off, these companies will be obliged to stick to agreed financing and performance targets. These will be reviewed by inter-ministerial teams every two weeks at director-general level, once a month at under-secretary level and quarterly by the main economic ministers.

The performance criteria will differ from case to case since a company like Conasupo is essentially a subsidy window for feeding the poor, while the DDF heavily subsidises Mexico City public transport.

In all cases, however, the intention is sharply to reduce fiscal transfers to the public sector, where spending last year exceeded targets by a full 2.7 per cent of GDP, partly because of higher interest payments.

The size of the public deficit became an issue between Mexico and the IMF in the drawn-out negotiations on this year's letter of intent on Mexico's austerity programme, expected to be signed shortly. Last year's deficit is put privately by officials at around 7.4 per cent of GDP, down from 8.7 per cent in 1983, and 18 per cent in 1982, the year of Mexico's financial crisis. The target in this year's budget was set at 5.1 per cent, against the original target of 3.5 per cent agreed with the Fund.

The debt write-off move complements an existing scheme designed by the Bank of Mexico to protect private dollar debtors from exchange rate fluctuations. It is the latest in a series of moves to reorganise and tighten public finances which followed September's agreement in principle on a multi-year restructuring of $48.7bn of Mexico's $96bn foreign debt.

These moves include:

● November's overhaul of the deficit financing system, with the introduction of the public sector borrowing requirement concept and a strengthened role for the Bank of Mexico;

● February's 250bn peso ($1.25bn) spending cuts and divestiture of 236 "non-strategic" public sector companies; and

● the recent introduction of a so-called "compensation cabinet," controlled by the Treasury, whereby incoming revenues and fiscal transfers to public sector concerns are passed on as net sums, after creditors and suppliers have been paid.

The more tentative scheme to allow foreign creditors to capitalise loans to some public sector companies is likely to inflame nationalist sentiment, which strongly opposes the divestiture programme as well as last year's return of 339 companies held by the nationalised banks to former bank shareholders.

Argentine debt talks, Page 3

Britain, U.S. and Canada seek common terms on share issues

BY DAVID LASCELLES, BANKING CORRESPONDENT, IN LONDON

BRITAIN, the U.S. and Canada are considering ways to standardise procedures for securities issues to make it easier for companies from these countries to raise finance in each others' markets. One proposal is for a "common prospectus" that would be acceptable in all three.

Exploratory talks will take place this week in London between Mr John Huber, a senior official of the U.S. Securities and Exchange Commission (SEC), and representatives of London markets.

The initiative for trying to harmonise issuing practices was taken by the SEC because of the growing interest by foreign corporations in raising debt and equity finance in the U.S.

Last year's flotation of British Telecom and Reuters on both the London and Wall Street markets highlighted the growing trend towards multinational share offerings. They also exposed, however, the different standards on disclosure and pre-issue publicity that exist in the UK and the U.S.

The SEC has prepared a discussion document as the basis of talks with the UK and Canada, the two countries which are most deeply involved in the U.S. capital markets, and whose practices most closely parallel its own.

The points for discussion will include:

● Methods of underwriting and distribution;

● Disclosure of information about the issuer of securities;

● Accounting standards;

● The possibility of reciprocity.

The U.S. would like to have a common prospectus which meets disclosure requirements in all countries and would therefore save issuing companies an enormous amount of paperwork. This would enable a flotation or a rights issue to be mounted in three markets simultaneously with a single offer document.

The SEC accepts, however, that the UK and Canada have standards that are less rigorous than its own and may not be willing at this stage to force companies to reveal more about themselves. It is therefore proposing that foreign registration statements be acceptable in the U.S. so long as their deviations from U.S. standards are clearly noted.

Iranian advance threatens to sever key route

By Roger Matthews, Middle East Editor, in London

IRAQ and Iran both reported continued fierce fighting yesterday in what seems certain to prove one of the decisive battles of the 53 month old Gulf war.

Iranian forces are battling to consolidate their 25-kilometre advance into Iraq which is threatening to sever the main road from the capital, Baghdad, to Basra, Iraq's second largest city.

Iraq admitted yesterday that Iranian troops had briefly crossed the Tigris river, which runs just east of the road, but claimed that the advance was being thrown back in a series of counterattacks. A military communique from Baghdad said two Iranian bridges across the river had been knocked out.

The intensified land war was accompanied yesterday by further attacks on tankers in the Gulf, air strikes against major cities and a warning by Iraq that civil airliners which enter Iranian airspace could be at risk.

Iran launched its offensive a week ago using helicopters and amphibious craft to penetrate the marsh area north of Basra in what seemed initially to be a probing attack. But the success of the advance encouraged Iran to pour in additional troops and intensified speculation that it might be preparing for what it has termed the "decisive offensive."

The loss of the main road to Basra would be a serious blow to President Saddam Hussein of Iraq, who can be expected to use every weapon at his disposal to force the Iranians to withdraw.

Iraq claimed yesterday to have killed 15,000 Iranians on Saturday alone. Iran put Iraqi losses at 7,000 since the offensive began. Both sides are also saying they have taken large numbers of prisoners.

In the Gulf, the Liberian-registered tanker Caribbean Breeze, 109,752 gross tonnes, was attacked early yesterday by an Iranian aircraft 16 miles north of Halul Island, east of Qatar. The vessel, loaded with 1.8m barrels of Kuwaiti crude oil, initially caught fire but the blaze was later extinguished. At least 10 of the crew were hurt in the attack, including the British master.

Iraq said its aircraft had hit "two large naval targets" south of Kharg Island, Iran's main oil terminal. There were indications that a tanker and a supply vessel may have been hit but there was no immediate independent verification.

Iraq has also kept up its bom-

Continued on Page 16

Andreotti calls for final EEC entry stance

BY QUENTIN PEEL IN BRUSSELS

SIG GIULIO ANDREOTTI, the Italian Foreign Minister, yesterday called on his EEC colleagues to spell out their final positions for the membership negotiations with Spain and Portugal. He is seeking to draft a community package on all outstanding issues by today.

He held a series of gruelling bilateral "confessionals" with fellow foreign ministers seeking last minute concessions on the key areas of fisheries, agriculture and social affairs which still have to be resolved with the applicant states.

The meetings came after the presentation by the Italian president of the EEC Council of Ministers of a new document on how to incorporate the huge Spanish fishing fleet into the Common Fisheries Policy (CFP).

This is the problem regarded as the toughest remaining on the table. Officials were hopeful last night that the compromise would be widely acceptable to the ten.

At the same time the ministers were presented with initial calculations by the European Commission on the financial package to be offered Spain and Portugal to ensure that they are not net contributors to the Community budget in the first years of membership.

The figures suggested that Spain should be reimbursed more than Ecu 1bn ($848m) in 1986 – about 85 per cent of its Vat-based contributions – with steadily declining amounts over the following five years. Portugal would get a 50 per cent rebate in the first year and thereafter be considered a net beneficiary if the proposals are approved.

The commission's calculations take into account the tough terms being put forward by the present ten EEC members which the latest internal discussions are attempting to knock into a more acceptable package for Spain and Portugal.

The fishing proposals, however, are relatively close to the hard-line position of the five leading fishing nations – Britain, Denmark, France, Ireland and West Germany – which are determined to prevent their own fleets being swamped by Spanish boats.

They suggest that Spain should be allowed access only to the waters where its boats already fish – essentially north and west of Britain and Ireland but excluding the "Irish box" of waters immediately around Ireland, and in the Bay of Biscay – although with improved quotas and licences, for the same fish species. The deal would last for the remaining 17 years of the CFP, although the presidency compromise proposes a review after 1992.

West Germany appeared last night to be taking a less tough position on the issue, than the other four fishing states, with officials expressing concern that the package would still be completely unacceptable to Spain.

Sig Andreotti is due to meet both Spanish and Portuguese negotiating teams this morning to present the EEC position with a deadline of Wednesday night to conclude what is supposed to be the final round in the extended enlargement negotiations.

However, Britain still has problems on the social affairs dossier because of concern at the possibility that after accession Spanish workers' families could flood the labour markets in Gibraltar.

France and Italy still have worries about the agricultural exports of Spain, while West Germany fears that the proposed regime for olive oil will be too generous, allowing yet another farm sector to produce an unsaleable surplus.

Right continues to gain in France

BY PAUL BETTS IN PARIS

THE SHIFT to the Right in the French electorate was confirmed last night in the second round of cantonal or local elections involving about 12m voters or roughly a third of the French electorate.

The right had already captured three new district councils in the first results after the polls closed at 8pm. The right is hoping to capture at least 15 district councils from the left to confirm its success, while the left is hoping to contain the damage to about 10 district councils.

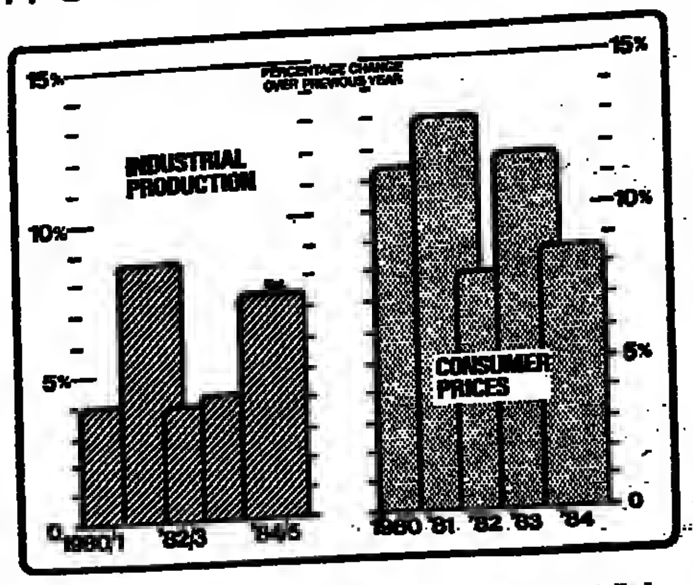
The first computer forecast showed a very modest improvement by the left-wing parties in the second round compared with the first round last Sunday. The left saw its performance improve by a meagre 1.5 per cent in 1,200 cantons compared with the vote in the first round in these areas.

Continued on Page 16

CONTENTS

John Elliott in New Delhi reports on budget reforms

India welcomes tax incentives



MAJOR CUTS in personal and corporate taxation were introduced at the weekend in India's annual budget, which forecast a near-record budgetary deficit for 1985-86 of Rs 33.49bn (£2.39bn).

The taxation cuts reduce the number of income tax payers in India's 700m population from 4m to 3m by raising the thresholds.

Corporation tax is cut by 10 per cent to 15 per cent at the start of three years of gradual reforms. Wealth tax has been reduced and death duties abolished.

The cuts are partly aimed at encouraging industrial investment and faster growth and at curbing the country's booming black economy by reducing or removing taxation that encourages avoidance.

The measures were widely welcomed yesterday as the most dynamic incentive for change introduced in India for many years but the size of the budgetary deficit drew criticism from economists and opposition politicians, who feared it would be inflationary. Some economists suggested it was larger than would have been allowed by the International Monetary Fund if its SDR 5bn ($5.23bn) arrangement had not been terminated by India last year.

The total forecast for March 1985 to March 1986 is only slightly lower than the current year's record deficit, which is estimated at Rs 33.98bn. This is itself almost twice the Rs 17.73bn envisaged in last year's budget.

Mr S. Venkataramanan, permanent secretary in the finance ministry, yesterday said that neither the deficit nor the overall budget would have an inflationary impact. The planned deficit was "within manageable limits."

In his budget speech on Saturday evening, Mr Vishwanath P. Singh, Finance Minister, admitted the deficit for the past year was "higher than ideally I would have liked." It had been mainly caused by state governments' financial problems, public sector losses and increased defence expenditure.

He was glad it had been absorbed by the economy "without any impact on prices." The deficit for the coming year would have to be curtailed.

But he hinted at a possible slight relaxation in the stern attitudes of the Indian finance ministry, saying: "It has been said that anyone who lives within his means suffers from lack of imagination. Not that I lack imagination; but I do not intend to let it run riot."

This is the first budget introduced since Mr Rajiv Gandhi became Prime Minister. Politicians believe that it shows his Government has decided to use India's strong short-term economic base to build new policies and growth.

Inflation has been brought under control: wholesale prices were rising at an annual rate of 5.2 per cent last month compared with 10 per cent a year earlier, and consumer prices were 4.4 per cent higher compared with 13.7 per cent.

The overall growth in national income in 1984-85 is expected to be about 4 per cent and foreign reserves are increasing. "On the whole, the economy is functioning well," Mr Singh told the Indian parliament.

Despite a shortage of funds for investment in the country's seventh five-year plan which started this summer, the budget provides for expenditure of Rs76.8bn on defence. This dominates the budget: it is only 7 per cent higher than the actual expenditure this year but is 13 per cent higher than the Rs68bn included in last year's budget.

The main fund-raising measure, which has caused widespread surprise, is an increase in the auxiliary duty on crude petroleum to Rs300 a tonne compared with Rs100 introduced a year ago. A basic customs duty of 10 per cent was also introduced on petrol.

This will raise an extra Rs6bn a year and shows that the Government is cashing in on its rapidly-increasing domestic oil production to help balance its budget. Oil production increased by 18m tonnes in the past five years and is expected to exceed 29m tonnes this year.

Mr Singh, referring to the Government's attack on the black economy, said: "Those who continue to indulge in tax evasion or other economic offences will do so at their own peril."

S. Africa faces tough budget

By Our Johannesburg Correspondent

MR BAREND du PLESSIS, the South African Finance Minister, today presents what is widely considered to be the most important but difficult budget for decades.

He inherited an overheated economy with spiralling government spending as a major inflationary factor from his predecessor, Mr Owen Horwood, and has already had to follow last July's rise in general sales tax from 7 per cent to 10 per cent with a supplementary budget last October.

President P. W. Botha has put his personal prestige and power behind Mr du Plessis who, at 43, is one of the youngest members of the Cabinet with little political clout of his own to enforce cuts on spending ministries. The budget's top priority is expected to be ensuring that government spending does not rise beyond the 14 per cent inflation rate.

Earlier this month, President Botha announced the symbolic 3 per cent cut in the pay of MPs and ministers, a curb on civil service recruitment and a small reduction in bonuses for civil servants whose 30 per cent salary increase last year had been widely criticised by the hard-hit private sector.

All departments have been told to make cuts, but the difficulties of slashing ongoing programmes has been made more difficult by new spending linked to the new tricameral constitution and the Government's reluctance to scrap expensive apartheid legislation and associated bureaucratic controls.

Meanwhile, the private sector has warned against the disincentive effect of further increases in personal taxation following the reduction of tax concessions on company cars [illegible] earlier this

Boost for Pretoria-Maputo pact

BY ANTHONY ROBINSON IN JOHANNESBURG

THE NKOMATI accord signed between South Africa and Mozambique a year ago appears to have taken on a new lease of life following high level talks between the two sides.

At a press conference in Pretoria over the weekend Mr Pik Botha, the South African Minister of Foreign Affairs, revealed that both governments had decided to recruit armed security guards to protect the power lines between Cabora Bassa and South Africa as well as rail and other communication links from attacks by Mozambique National Resistance (MNR) armed bandits.

The guards would not be recruited by the governments but by the Electricity Corporation and other commercial bodies.

Mr Botha said there was no question of either South Africa or UN forces being involved and added that Mozambique had not requested the use of South African forces for security either.

Mr Botha said Mozambique accepted denials of any lingering South African official support for the MNR. He revealed details of criminal bands and what he termed "an international web of businessmen and financiers" who were financing the MNR.

Their intention was "to turn Mozambique into their own private economic preserve," he said.

He did not name the MNR's foreign backers but said that both the South African and Mozambique Governments knew their identities. They operated from various Latin American and European countries whose governments were also aware of what was going on. He called on these governments to help curb MNR activities "instead of just blaming South Africa."

Holding up a sheet of counterfeit $100 notes and a wad of counterfeit R50 notes Mr Botha said that the police had tracked down a gang of counterfeiters in Johannesburg who had used the false notes to purchase ivory, diamonds, emeralds and prawns smuggled out of Mozambique to finance arms and other help for the MNR.

Two of the counterfeiters had escaped to a foreign country and South Africa would be seeking their extradition, he said.

Mr Botha revealed that South Africa had set up a network of radar stations along the border with Mozambique to monitor illegal low-flying aircraft and had offered a patrol boat to monitor the sea approaches. He said about 12 members of the South African armed forces who had been found to have connections with the MNR had been sacked.

Meanwhile, in Mozambique, the anniversary of the Nkomati Accord was marked by a power blackout in the capital Maputo as MNR bands again succeeded in blowing up the power lines bringing electricity from South Africa.

Mubarak to meet Hussein today

BY TONY WALKER IN CAIRO

PRESIDENT Hosni Mubarak of Egypt flies to Jordan this morning—less than 48 hours after returning to Cairo from the U.S. and Europe—to report to King Hussein on his visit to Washington and to discuss ways of moving forward their attempts to revive the Middle East peace process.

Mr Mubarak arrived back in Egypt on Saturday from inconclusive talks with President Ronald Reagan and brief visits to several European capitals including London where he met Mrs Margaret Thatcher, Britain's Prime Minister.

The Egyptian leader, who is trying to revive the stalled peace process in co-operation with King Hussein, proposed last month that as a first stage, there should be direct discussions between the U.S. and a joint Jordanian-Palestine Liberation Organisation delegation.

Mr Mubarak initially suggested that the joint Arab delegation need not include members of the PLO, but subsequently backed away from that position.

King Hussein, after a meeting with Mr Mubarak at Hurghada on the Red Sea on March 6, gave lukewarm endorsement to the Egyptian initiative.

On February 11, King Hussein reached an accord with Mr Yassir Arafat, chairman of the PLO, on a negotiating strategy for resolving the Arab-Israeli conflict.

The accord calls for an international conference on the Middle East and for a settlement based on United Nations and Security Council resolutions and plans put forward by Arab summits.

The Egyptian President, on his return at the weekend, dismissed suggestions that his visit to Washington had been a failure.

"We cannot say the American reaction was negative or positive," he declared.

While in the U.S., he had described the Administration's approach as "defeatist."

Two Israeli soldiers were killed and five others wounded when an Israeli Army patrol came under fire near the village of Jibchit, south-west of Nabatiya, in Southern Lebanon yesterday, writes Lyn Richardson in Tel Aviv.

At the weekend, Israeli forces raided villages in Southern Lebanon, searching for weapons, demolishing houses and arresting residents.

FINANCIAL TIMES, USPS No. 190640, published daily except Sundays and holidays. U.S. subscription rates $420.00 per annum. Second class postage paid at New York NY and at additional mailing offices. POSTMASTER: send address change to: FINANCIAL TIMES, 14 East 60th Street, New York, NY 10022.

Shultz lends weight to Reagan hint at superpower summit

BY STEWART FLEMING IN WASHINGTON

MR GEORGE SHULTZ, The U.S. Secretary of State, reiterated yesterday the Reagan Administration's view that the time is right for a summit meeting between the U.S. President and Mr Mikhail Gorbachev, the new Soviet leader. But when asked if the U.S. had received a response from Moscow to its suggestion made last week that a summit should be held, Mr Shultz said: "Not really."

In pressing the case for such a meeting, Mr Shultz said that "quite a lot" had been done to prepare for such a summit in discussions held between the U.S. and the Soviet Union, including those continuing presently in Geneva.

It would be timely, in view of the accession of a new leader in the Soviet Union and the commencement of a second term for President Reagan, for the two superpower leaders to meet, Mr Shultz said.

Mr Shultz, questioned about U.S. concern over the apparent deployment of a "new" mobile nuclear missile by the Soviet Union, indicated that he saw the 10-warhead SS24 missile as o violation of the Salt II arms control treaty (which the U.S. has been observing although it was never ratified by the Senate). But he conceded that the missile could be construed to fit within certain treaty language as narrowly interpreted by lawyers.

Questioned about a press interview by the head of the Soviet delegation to the Geneva arms talks, Mr Shultz expressed concern about the dangers that the talks could be turned into a propaganda vehicle by the Soviet Union, adding that the negotiations should take place as a private diplomatic effort in which the rules of confidentiality are observed.

AP adds from Moscow: The Soviet Communist Party daily paper Pravda yesterday accused the U.S. of contradicting the aims of the arms control talks in Geneva by pushing ahead with research into a space-based missile defence.

The authoritative newspaper also claimed that American officials are putting a "propaganda gloss" on the so-called star wars programme to make it appear more attractive to Americans.

The Pravda comments came after Mr Victor Karpov, the chief Soviet negotiator at Geneva, appeared on national television on Saturday and accused the U.S. of trying to "revise the understanding" about the role of space weapons ot the talks.

His comments were the first such public comments since the Geneva arms talks opened last Tuesday and since Mr Mikhail Gorbachev became head of the Soviet Communist Party following the death of Mr Konstantin Chernenko.

Trade tops Shamrock Summit agenda

THE CONTENTIOUS issues of free trade and acid rain are expected to dominate today's "Shamrock Summit" between President Ronald Reagan and Prime Minister Brian Mulroney of Canada, Bernard Simon reports from Quebec City.

President Reagan's visit to Knebec City will be his first to Canada since March 1981. His 24-hour stay will include the signing of formal agreements between the two countries on Pacific salmon fisheries, co-operation between law enforcement authorities, and modernisation of North America's air defences.

Canada is pressing the U.S. to curb acid rain and begin talks on dismantling remaining trade barriers between the two countries, which are each other's largest trading partners.

President Reagan is expected to make some conciliatory gestures on both fronts without deserting from the Administration's view that the acid rain issue requires more research, and that freer trade must also benefit U.S. exporters without interfering with Washington's multilateral trade obligations.

Opec to meet in Geneva this week

A special committee of the Organisation of Petroleum Exporting Countries will meet in Geneva this week to review the latest efforts to support fragile world oil prices by limiting production, officials said yesterday, Reuter reports.

Members of the Ministerial Executive Council, headed by Saudi Arabia's Oil Minister Sheikh Ahmed Zaki Yamani, arrive today for talks on Tuesday, they said.

The council, set up during a turbulent Opec meeting in December, oversees the work of the organisation's so-called "production police," a team of independent auditors.

Oil analysts and traders have predicted for several months that the advent of warmer weather in northern Europe would reduce the demand for oil and increase pressure for lower prices.

Attempts to reach cocoa price pact fail

Seventy countries which account for most of the world's trade in cocoa have failed in their third attempt to negotiate a new agreement on prices, delegates to their Geneva conference said yesterday, Reuter reports.

They attributed the failure to differences among producers on what price-support levels they considered might be acceptable to consuming nations.

The conference was trying to draw up a new International Cocoa Agreement to replace the current pact due to expire at the end of September but which can be extended for up to 12 months.

IMF may grant Chile more flexible terms

The International Monetary Fund and other lending organisations have tentatively agreed to more flexible terms for Chile, in the wake of the March 3 earthquake which left 146 dead and as many as 500,000 homeless, Chile's Finance Minister, Sr Hernan Buchi, said, Mary Helen Spooner reports from Santiago.

Sr Buchi, who returned from a round of meetings in Washington and New York, said the IMF had agreed in principle to increase Chile's fiscal deficit from 3 to 3.5 per cent.

Brendan Keenan assesses the impact of Dublin's insurance disaster

Irish count cost of an industry's failures

THE IRISH Government is now the embarrassed owner of two loss-making insurance companies and the final bill to the Irish citizen over the next 10 years could easily top I£300m (£255.5m).

Two years ago emergency legislation was introduced to take over the country's largest motor insurer, PMPA (Private Motorists Protection Association), when it become clear the company was insolvent. The explanation then was that to do otherwise would have meant the collapse of the country's car insurance market: the same legislation has been used again, to prevent on even bigger disaster which might have threatened the stability of the Irish banking system.

If the PMPA experience is anything to go by, the final figures for losses at Insurance Corporation of Ireland (ICI), the subject of the latest rescue, will be larger than the present tentative forecasts. They will also be spread over many years as claims make their way through the legal process. This year's losses are estimated at I£60m so the final figure could easily top I£100m.

There is little doubt that the Government had little choice but to act as it did: even the strongest Irish advocates of market forces baulk ot the thought of what would have happened had ICI gone under. The company was bought three years ago by Allied Irish Bank (AIB), Ireland's largest banking group, in an acquisition hailed as a useful diversification into the wider financial business. The bank has already lost I£86m, or about a fifth of its total shareholders' funds, on the venture.

AIB might have survived the collapse of ICI had the Government not intervened, but its shareholders would have been impoverished and the bank could have ended up in a foreign ownership. Twenty-five per cent of employer's liability insurance in Ireland and all its export credits would have been left uncovered, and confidence in Irish financial institutions could have been damaged irreparably.

There is already some uncertainty following the liquidation of the state-owned Irish Shipping last year. Again, everyone agrees that the Government took the right decision but the move questioned the status of state-owned companies and the Government's attitude to foreign creditors. The only good to come from the ICI disaster may be the recognition that, ultimately Irish financial institutions will be protected by the resources of the state.

The London Stock Market will have the first opportunity today to make a judgment on the rescue of Insurance Corporation of Ireland (ICI) by the Irish Government and the resulting write-off by its parent, Allied Irish Banks, of I£90m (£76.69m). The Dublin Exchange closed today for the St Patrick's Day holiday. Senior executives of AIB were yesterday working out details of the transfer of responsibility for ICI to the Government.

That may be little consolation for the taxpayers and policyholders: all Irish insurance policies already carry a 2 per cent levy to pay for the PMPA rescue and further burdens seem inevitable. The Government's determination to stick to its borrowing targets, albeit modified, means that some spending cuts or tax increases may be necessary to help meet the ICI losses.

The bulk of those losses were incurred in the London reinsurance market. Mr Gerry Scanlan, AIB's chief executive, said this weekend that the quality of underwriting in the London office was low and premiums were inadequate.

Observers are now asking what can be done to prevent a similar occurrence. A few months ago, AIB injected I£30m into ICI, apparently in the belief that this could be enough to restore profitability. Now the bank says it will sue ICI's former auditors, Ernst & Whinney, for at least I£100m. Ernst & Whinney deny responsibility and say they will contest vigorously any legal action.

The Government administrator of PMA also plans legal action against that company's former auditors, raising the question of whether conventional auditing techniques are adequate for insurance companies, which must make estimates of costs of claims running years ahead.

Certainly the Irish Government is pondering the problems of responsibility without power, particularly the power to find out what is going on inside major financial institutions. New legislation is possible to allow the Government to carry out its own independent checks on the affairs of banks and insurance companies, although it is pointed out that the ICI London office actually came under the jurisdiction of Britain's regulatory authorities.

Insurers argue—although it is not strictly relevant to the ICI fall—that Ireland also needs to reform its system of jury awards. They say the long delays and high legal costs of this system threaten the industry's profitability.

The most profound impact of the rescue may fall on the relationship between the Irish banks and the Government. The two largest, AIB and Bank of Ireland, are Irish-owned; Ulster Bank and the Northern Bank are subsidiaries of NatWest and Midland Bank respectively. All have paid out I£200m in levies to the hard-pressed Exchequer in the past four years and have had to provide twice as much again against possible bad debts.

The Bank of Ireland has already warned that it is re-examining the risks of lending to small business: AIB, although it promises unchanged profits for this year, has been dealt a blow to its self-confidence from which it will not easily recover. It seems unlikely, in all the circumstances, that the Government can continue to expect the banks to pay the levies and provide the leading role in financing industrial development. Bankers will be wondering if the fashionable expansion into wider financial services is not, perhaps, a little too risky.

Neves outlines austerity drive

BY ANDREW WHITLEY IN RIO DE JANEIRO

RIGID AUSTERITY in public spending was laid down yesterday as the keynote of the new Brazilian Government beaded by President Tancredo Neves.

In a framework speech read to Government Ministers by Sr Jose Sarney, the Vice-President—standing in temporarily for the President who is in hospital—Sr Neves said he was convinced Government austerity would be "a decisive factor for the success of this great transition to a constitutional, democratic régime."

The new civilian Government is to give special attention initially to slashing the fringe benefits available to public functionaries. Benefits are to be cut "to the essential minimum."

In their own outline policy statements, the Ministerial economic team sworn in on Friday also stressed the austerity theme.

Sr Francisco Dornelles, the new Finance Minister, gave top priority to the control of public expenditure and the combat of inflation.

Sr Antonio Carlos Lemgruber, the new central bank governor, delivered a tough defence of the monetarist faith. "Economic growth will not come from attempts to expand global demand," he declared.

On the external front—of most coocern to the country's creditors—the bank governor said the idea that trade surpluses demanded an internal recession "is totally erroneous."

Argentina and IMF set date for further talks

BY JIMMY BURNS IN BUENOS AIRES

ARGENTINA and the International Monetary Fund (IMF) have scheduled talks aimed at working out an agreement that would lead to the first disbursement from the IMF's $1.4bn standby loan.

Argentina bas agreed to the talks although it has apparently failed to comply with the IMF's monetary and fiscal targets projected in the standby ogreement.

In a sbort statement issued on Saturday night, the Economy Ministry tacitly accepted that the IMF would not disburse the next tranche of its $1.4bn credit facility — about $250m — until both sides had agreed to renegotiate the targets.

The statement was issued after two days of talks in Woshington between the IMF and an Argentine delegation headed by Sr Alfredo Concepcion, new Central Bank governor.

France and UK in talks on closer hi-tech ties

BY JASON CRISP IN LONDON AND DAVID MARSH IN PARIS

A TOP-LEVEL meeting of French and British electronics companies and government officials is to be held in Paris this evening to encourage closer co-operation.

The informal meeting is the result of an initiative by the British Government which wants to see greater European collaboration in the electronics industry.

Mr Geoffrey Pattie, the British Information Technology Minister, and M Louis Mexandeau, the French Telecommunications Minister, will be at the meeting at the British ambassador's residence.

The British industrialists at the meeting will be Sir John Clark, chairman of Plessey, Sir Kenneth Corfield, chairman of Standard Telephones and Cables (STC), Mr Colin Southgate, a director of Thorn EMI, and Mr Philip Hughes of Logica, the software company. The French will be represented by M Jacques Stern of Bull, the French computer group, and executives from Thomson, Compagnie Générale d'Electricité and Cap Gemini Sogeti

Although there is no formal agenda for the meeting it is understood that the British bope to talk about collaboration between the two countries in electronics and computing in order to meet the growing competition from the U.S. and Japan.

The broad areas of discussion are likely to include where Europe needs to meet competition, the best strategies and how far it is sensible for countries to collaborate.

The meeting follows the recent failure of the French-inspired efforts to agree reciprocal trade agreements in telecommunications which resulted in bitter recriminations.

British officials hope to avoid the subject of telecommunications at this evening's meeting and concentrate on computers and electronics. However, the French would like to discuss joint industrial programmes in videotex, cashless shopping (using the French-invented "smart" electronic payment card) and mobile telephones.

Some of the British industrialists are also expected to raise the problems of trading in France which, they argue, is particularly difficult for foreign-owned companies. There is also some scepticism as to the likelihood of real collaboration between the two countries.

The French have also been pressing for some participation in Britain's Alvey research programme into the fifth generation of computers. Mr Brian Oakley, head of the Alvey directorate, will also be at the dinner. ICL, the British mainframe computer group bought last year by STC, Bull and Siemens of West Germany are working together on advanced computer research.

Shultz to meet Gromyko

BY PATRICK BLUM IN VIENNA

MR GEORGE SHULTZ, the U.S. Secretary of State, is expected to meet Mr Andre Gromyko, his Soviet counterpart, in Vienna in May during ceremonies marking the 30th anniversary of the signing of the Austrian State Treaty which formalised the end of the country's occupation by the Allies and the Soviets after the war.

Herr Leopold Gratz, the Austrian Foreign Minister, said yesterday on television that Mr Shultz had accepted an invitation to attend the ceremonies on May 15. A similar invitation has been extended to Mr Gromyko who is expected to confirm in the next few days that he will be coming, Herr Gratz said.

The foreign ministers of Austria's neighbours, including West Germany, Italy, Switzerland, Lichenstein, Czechoslovakia, Hungary and Yugoslavia have also been invited, as have the foreign ministers of Britain and France, two signatories of the state treaty.

The Austrian State Treaty and the ensuing constitutional law on permanent neutrality form the basis of the second Austrian Repnblic. Both are integral parts of the Austrian constitution.

Sindona trial breaks new ground

BY ALAN FRIEDMAN IN MILAN

"IF I EVER make it back to Italy, if they don't kill me first, I will turn my trial into a circus. I will tell all."

Sig Michele Sindona, the Sicilian financier and former Vatican adviser who was convicted on Friday of fraudulent bankruptcy in the 1974 collapse of his Italian banking empire, did not quite fulfil this promise to embarrass prominent politicians.

But his trial, which ended with a 15-year prison sentence, is significant because it marked the first time in recent years that the acknowledged author of a major Italian scandal has actually had to answer for it.

It was also the 64-year-old Sig Sindona's first Italian conviction, having previously been convicted in New York of fraud and perjury in the 1974 collapse of the Franklin National Bank. In 1980, Sig Sindona was sentenced to a 25-year jail term in the U.S.: three months from now, he will face a third trial, in Milon, on charges of having ordered the murder of Sig Giorgio Ambrosoli, the liquidator of Sindona's Banca Privata.

Under terms of the U.S.-Italian extradition treaty which brought Sig Sindona back to Milan last autumn, he can be returned to New York State to serve the balance of his U.S. prison sentence before again being brought back to prison in Italy.

These are mere technicalities, however: the true import of Sig Sindona's conviction lies in the fact that he is a quintessential representative of the sinister underside of Italian society finally being brought to justice. On Friday the state prosecutor described Sig Sindona as being "among the most dangerous criminal elements of Italian society."

Few Italians need to be reminded of Sig Sindono's many alleged ties with the Mafia, the banned P-2 Freemasons Lodge and its fugitive grand master, Sig Licio Gelli. For the late Sig Roberto Calvi, chairman of the failed Banco Ambrosiano, Sig Sindona was first a mentor and then a fearsome enemy; for the Vatican, Sig Sindona was at one time a close adviser.

His power base was rooted in the secretive and dark parastate which flourished in recent decades. The rising generation of reform-minded Italian bankers and financiers regard Sig Sindona is one of the last of a nefarious club of manipulators which this country would like to forget.

He did not implicate senior Italian politicians, but Sig Sindona's return last September to Italy did set off a political storm which led to a parliamentary call for the resignation of Sig Giulio Andreotti, Foreign Minister and a former Prime Minister.

Sig Andreotti, condemned by several parliamentarians for his alleged ties to Sig Sindona, survived the resignation motion; but any prospects Sig Andreotti may have had as a potential candidate in this June's Presidential election are widely seen to have been damaged by the affair. Sig Sindona, for his part, described Sig Andreotti as "a friend."

Apart from the Andreotti affair, Sig Sindona last month accused a former chairman of IRI, the Italian state holding group, of having known about the embezzlement of L300bn (£130.8m) of state funds. Sig Sindona, in doing so, disputed the word of Sig Giuseppe Petrilli, chairman of IRI from 1960 to 1979, who has denied knowledge of the embezzled funds. Sig Petrilli has recieved funds. Sig Petrilli has received under investigation.

WORLD TRADE NEWS

President Alfonsin hopes to see renewed investment in his country, **Jimmy Burns** writes

Argentina aims to boost trade with U.S.

PRESIDENT Raul Alfonsin of Argentina begins a six-day official visit to Washington today aimed principally at improving trade and political relations between his country and what, during the Falklands war, became for many Argentines the "enemy."

Government officials have gone out of their way to stress the importance of the visit, as it comes at a time when Argentina's nascent democracy is still desperately in need of trust.

It is the first official visit to the U.S. by an Argentine leader since the 1960s visit of President Arturo Frondizi.

President Alfonsin will not shy away from such thorny issuos as Central America, the Falklands, foreign debt and nuclear policy.

It is hoped to see a renaissance in U.S. interest in investing in the resource-rich but economically-troubled South American nation.

Tho confirmation last week that ITT's Argentine subsidiary Standard Electric was planning to withdraw from the domestic market has come as a sharp reminder of the enormous difficulties facing potential U.S. investors trying to maintain a minimum level of profitability in Argentina's economic climate.

With a turnover of somo $66m (£60m) and a workforce of 1,400, Standard Electric Argentina had partly fallen foul of tho more advanced technology offored locally by Siomens of Germany and NEC of Japan. But it had also suffered from price controls and e persistently high inflation rate.

To many observers, the news that Standard Electric could be pulling out is an ominous echo of tho earlier withdrewsl of General Motors from the Argentino car market.

Investment code

The demise of the local subsidiary of the U.S. motor company in 1979 suggested that, for all the public relations exercised by the then military regime, the investment climate was not as bright as it seemed.

Theoretically, Argentina has a generously liberal foreign investment code which has been essentially untouched for years. There is no discrimination against foreign capital except at times of foreign exchange shortages, like tho present, when companies are advised to repatriate profits in bonds.

In practice, however, U.S. company officials complain that the new democratic government has not adequetely defined the rules of tho gamo.

"Tho political climate here is still beatod, and we continue to get *confusing mossages*," commented Sr Federico Dodds, the president of tho American Chamber of Commerce in Argentina.

ARGENTINE/U.S. TRADE STATISTICS ($m)

		% of total
Exports to U.S.:		
1980	696	8.7
1981	843	9.2
1982	1,007	13.2
1983	755	9.6
1984	900	—
Imports from U.S.:		
1980	2,363	22.4
1981	2,073	22.0
1982	1,160	21.7
1983	973	21.6
1984	1,041	—

Source: U.S. Chamber of Commerce in Argentina

Tho Chamber's member-companies account for some $3.5bn investment stock or 40 per cent of total foreign investment.

Sr Dodds is particularly worried by reports that new legislation governing transfer of technology, export policy, and industrial promotion is being prepared by what, on balance, remains e highly nationalistic and anti-U.S. local parliament. "Wa need firm assurances that the new laws will not be discriminatory," Sr Dodds said.

While such caution may explain the absence of any substantial fresh U.S. investment since President Alfonsin took power, the outlook for bilateral trade does not look much brighter.

The two countries bave had a varied trade relationship in recent years. U.S. shipments on a value basis have slipped steadily from $2.3bn in 1980 to $1.04bn last year. Argentine exports havo been more turbulent, standing at $696m in 1980, rising to $1bn in 1987, falling sharply in 1983 then recovering to $900.2m last year.

Despite the formation last year of a binational joint trade commission, Argentines share the common Latin American complaint that U.S. protectionism is setting back their export opportunities.

U.S. business sectors claim that U.S.-Argentine trade continues to be distorted in Argentina's favour because of high local tariffs.

Import curbs

Nevortholess, an increasing number of Argentine-based U.S. companies have managed to get round local import restrictions by dealing directly with other Latin Amorican affiliates, and trading with tha preferential quotas provided under tho auspices of the Association for Latin American Integration.

Argentine steel, textile, and leather have been among tho leading Argentine exports affected by U.S. quotas in recent months. But agriculture remains one of the most sensitive areas governing the trade relationship and is a high priority for discussion during Sr Alfonsin's visit.

The Argentines are anxious to avoid a price war with the U.S. ovor grain products and want to reach some as-yet unspecifiod "comprehensive" compromise arrangement on subsidies.

But U.S. farmers earlier this year were presented with an unusual situation when Cargill, a leading shipper of Amorican grain, purchased Argentine wheat for import to U.S. flower mills.

The move according to some observers, was likoly to stimulato action by tho Reagan Administration aimed at making U.S. grain export more competitive on the world market, to the detriment of Buenos Aires.

Moat exports are another area where the Argentines are seeking greater "understanding" from tho U.S. As e result of continued protectionism by tho EEC and the loss this year of the profitablo Soviot markot to a more competitive Brazil, Argentina is once again looking for greater access to the Amorican markot.

But so far, thore seems to be littlo likelihood of Argentino meat exporters getting round tho tough U.S. bealth standards with anything but boilod meat.

Japan bid to influence EEC over Gatt talks

By Paul Cheeseright in Brussels

THE JAPANESE Government has appealed to the EEC to throw its woight behind a new round of trade liberalisation talks at the Genoral Agreement on Tariffs and Trado.

A letter from Mr Shintaro Abe, Japan's Foreign Minister, has been delivered by the Japanese Ambassador to Mr Willy de Clercq, the EEC commissioner in charge of external relations.

It is clearly designed to influence tho attitude of Community Trade Ministers who meet tomorrow to define their attitude to a new Gatt round, which is being pushed strongly by Japan and the U.S.

Mr Abe's appeal was couched in general terms, stressing the need for political commitment to a new round to reinforce the liberal trading system and emphasising tho Community's influence over the attitude of other countries.

There is a disposition in Brussels to see Japan as a stalking horse for the U.S., which is especially keen to see Gatt disciplines brought to bear on services trade and high-technology commerce.

The EEC has already stalled a Japanese move to have a high-level meeting of preparation for a new round next July, with a view to starting negotiations early next year, which would suit the Reagan Administration.

Generally, the EEC is approaching the whole matter cautiously, not least because of divisions in its own ranks. The Commission has already urged on trade Ministers a list of conditions to be met by the international trading community before a negotiating round takes place.

These include agreement on an agenda which covers not only the sort of topics which interest the U.S., but also older issues such as import safeguards. On this point, Japan is agreed. Both sides accept the need for careful preparation.

But Mr de Clercq last week indicated that Japan should make certain its export policies are the same as its main trading partners — presumably meaning it should not target exports in specific sectors. This should be a condition for a new trade round.

This reflection of a more generally widespread irritation with Japan's surplus on its trade suggests that Mr Abe's appeal may have a limited effect on the trade Ministers.

SHIPPING REPORT

Gulf tanker business stays slack

By Andrew Fisher, Shipping Correspondent

WITH MORE ettacks on tankors as a result of continuing hostilities in the Iran-Iraq war, it might seem that rates should be set for an increase. But business has continued slack in the Gulf.

Few bigs ships obtained business from the region last week. There has been plenty of inquiry, but there are still too many ships around for the amount of available business, despite tho risks of operating in or near a war zone.

"Tho ever-present problem of excess tonnage availability still inhibits any firmer rates," E. A. Gibson Shipbrokers of London said. Over the past month, there has been a rise of nearly 2.5m tons in the size of the laid-up fleet.

For those VLCCs (very large crude carriers) which did find work in the Gulf, rates wore hardly exciting. For a 240,000-ton cargo to the East, Worldscale 24 was obtained. To the West, it was around Worldscale 25.

The UK Government's decision to abolish the British National Oil Corporation (BNOC) had little effect on the tanker market, which was divided about the likely impact on oil prices.

On the dry cargo sceno, Denholm Coates reported that rates had shown some improvement on the Atlantic for Panamax-size ships (those able to go through the Panama Canal).

The grain rato from tho U.S. Gulf to Continontal Europe remained at around $9.50 a ton, but the rates to Japan was firmor at $15.75.

This improvement for large ships reflects a lack of such vessels availablo for the Atlantic as a result of unabated Soviet chartoring as part of the Russian grain improt programme.

In the Pacific area, Panamax levels wore tending to drop.

Soviet Union 'not planning to join Intelsat'

WASHINGTON—The Soviet Union is not planning to join Intelsat at the present time, a spokesman for the International Satellite Consortium said.

A proposed memorandum of understanding that Intelsat and the Soviet Union are now discussing contains "no talk about membership," Sr Jose Luis Alegrett, Intelsat's Deputy Director, stated.

"We do hope the agreement will eventually lead to Soviet membership but that decision is up to the Soviet Union," Sr Alegrett said. The consortium's charter permits tho Soviet Union to join at any time.

When news of a proposed agreement between Intelsat and the Soviet Union was leaked last week, it raised speculation that the Soviet union was preparing to join.

Intelsat, with headquarters in Washington, is a non-profit co-operative of 109 countries that owns and operates the global satellite system used for international communications.

Yugoslavia belongs to Intelsat while nations of the Soviet Bloc operate Interspútnik, a smaller satellite network.

AP

U.S. concern over French nuclear-plant talks with Israelis

BY DAVID HOUSEGO AND DAVID MARSH IN PARIS

FRANCE is likely to run into U.S. opposition over a possible sale of a nuclear power station to Israel in a deal which could be worth $3bn (£2.7bn).

Mr Moshe Shahal, the Israeli Energy Minister, who visited Paris last week for talks on the purchase, is due to make a further trip to France in coming months amid signs that the Elysee Palace is placing considerable weight on steering negotiations through.

Israel has been considering the purchase of two 900 Mw pressurised water reactor generating plants, but still has not made a final choice over whether to opt for a nuclear or coal-fired station.

The prospective deal is causing concern in the U.S. both over the cost—which is thought to be far too high for the embattled Israeli economy—and over the possibility that Israel could use the facilities to improve its capacity to make nuclear weapons.

Some French officials fear the issue could also damage France's relations with the Arab world. This is especially so because of strong sensitivities about a previous French sale to Israel in the 1950s of a nuclear reactor and reprocessing plant which were of crucial importance in building up Israel's bomb-making capabilities.

Framatome, the French nuclear reactor company, is keen to secure an Israeli order because of the sharp slow-down in ordering of new French N-plants and the highly depressed international market.

Although Framatome officials say any Israeli deal could take up to five years to conclude, the company earlier this month sent a sales team to Tel Aviv—for "preliminary" discussions and to visit a proposed site.

Israeli diplomats said after M Shahal's visit last week during which he saw M Laurent Fabius, the French Prime Minister, that some advance had been made over the N-plant order. An Israeli diplomat said Israel was seeking credit terms "as generous as possible."

The U.S. is warily watching the Franco-Israeli negotiations.

Agreement on a sale would counter U.S. efforts to ban sales by Western suppliers of nuclear equipment to countries which do not allow full international inspection of their nuclear industries to assure non-military use.

Israel, which has not agreed to the non-proliferation treaty, has never carried out a nuclear explosion or proclaimed openly weapons-making ability.

The U.S., however, believes that the country probably since the 1970s has had the capacity to build a small nuclear arsenal, using plutonium produced from the previous French-supplied reactor at Dimona, which has been operating since 1963.

The idea of supplying a nuclear plant to Israel was first discussed when President François Mitterrand paid a state visit to Israel in 1982.

Negotiations were pursued when M Shimon Peres, the Israeli Prime Minister, visited Paris at the end of last year.

Ironically, M Peres, as director-general of the Defence Ministry, played a key rolo in securing French agreement on the Dimona reactor.

UK ECONOMIC INDICATORS

INDUSTRIAL PRODUCTION (1980 = 100)

					% change over previous year
	Jan. '85	Dec. '84	Nov. '84	Jan. '84	
U.S.*	166.6	165.9	165.0	158.5	+ 5.1
	Dec. '84	Nov. '84	Oct. '84	Dec. '83	
W. Germany	100.2	102.3	103.4	99.7	+ 0.5
France	100.9	101.7	102.9	100.2	+ 0.7
Italy	97.6	95.0	96.6	93.7	+ 4.2
Netherlands	100.4	101.7	101.7	98.4	+ 2.0
UK	103.4	103.3	102.9	104.7	− 1.2
	Nov. '84	Oct. '84	Sept. '84	Nov. '83	
Japan	120.7	120.2	116.7	109.0	+10.7
Belgium	102.9	103.0	107.2	102.8	+ 0.1

Source (except U.S.): Eurostat

Heathrio.

Now we're flying down to Rio.

We're flying to 7 new destinations in North and South America: Rio, Bogota, Sao Paulo, Caracas, Tampa, Orlando and Pittsburgh.* In fact, we now fly direct from Britain to more American cities than any other airline. With more flights from more British airports, we're living up to our name.

*FROM APRIL (PITTSBURGH FROM MAY)

BRITISH AIRWAYS

The world's favourite airline.

Tough budget will limit scope for tax cuts

BY MAX WILKINSON, ECONOMICS CORRESPONDENT

A TOUGH budget emphasising the need to control inflation and hit financial targets will be unveiled by Mr Nigel Lawson, the Chancellor of the Exchequer, tomorrow.

His plans will be based on a comparatively small overall tax cut and will make no concession at all to those who have urged a "budget for jobs" at the expense of inflation targets.

Instead, Mr Lawson is likely to emphasise the need for moderate wage settlements to make room for higher employment, while announcing a series of measures to increase incentives and expand job-creating schemes.

His overall scope for tax cutting is likely to be put at less than the $1.5bn foreshadowed in his November autumn statement, even though Treasury estimates have suggested that be could have room for an overall adjustment of about £2bn.

However, one of Mr Lawson's priorities will be to convince the financial markets that be will be able to hit his borrowing target next year, even if there are unforseen contingencies. This target will be set at close to £7bn. As Mr Lawson will point out, this represents a considerable tightening compared with the expected £9.5bn to £10bn this year (1984-85).

Although his general view of the economy will be optimistic, Mr Lawson is likely to say that his scope for tax cuts this year has been limited by:

- The continuing cost of the miners' strike, which may add up to £500m to public borrowing in 1985-86;
- Uncertainties about oil prices and tha dollar: a sharp fall of the dollar could greatly reduce government revenues from the North Sea;
- Increasing government debt interest, partly as a result of the rise in UK interest rates at the turn of the year, and the extra borrowing to cover the costs of the miners' strike;
- Acceleration of the inflation rate this spring which will mean that pensions and other benefits will rise by more than the Treasury was expecting before Christmas. The May inflation rate could reach 5½ to 5¾ per cent compared with the Treasury's November forecast of 4¾ per cent. This reflects the slide in sterling and tha rise in interest rates in January.

It is likely that the Chancellor will increase his scope for reducing the burden of income and possibly of capital taxes, by some extension of the coverage of VAT and possibly a small levy on pension funds. The impact of these revenue-raising ideas is likely to be relatively small, however. They may have been ruled out altogether in response to political pressures.

A major shift from direct to indirect taxation can be ruled out, partly because of Mr Lawson's anxiety about future inflation.

However, the Chancellor will probably sketch out his ambitions for tax cuts and tax reform in future years. These could be substantial if public spending and borrowing – and inflation – can be controlled.

This year, the main emphasis is likely to be on raising income tax allowances and thresholds by more than the rate of inflation. They will probably go up by 10 per cent with perhaps a similar rise in the child benefit.

Drink and tobacco duties are likely to go up hy last year's inflation rate of 4¾ per cent with tobacco duties rising perhaps a little more.

Mr Lawson is certain to be cautious about raising any taxes which could feed through into this year'a inflation rate. His forecast is likely to show inflation at 5 per cent by the end of the year, compared with his 4½ per cent forecast made in November. His estimate of economic growth is likely to be put at 3½ per cent for this year, of which 1 percentage point represents recovery from the miners' strike.

Ford workers agree worldwide support for local disputes

BY IAN HAMILTON FAZEY

SHOP-FLOOR representatives of 140,000 Ford workers in 16 countries agreed yesterday to worldwide mutual support in the event of any plant being in dispute with its local management.

Mr Bernie Passingham, chairman of the first Ford world workers' conference, held in Liverpool, said he was confident that all plants would act should Ford try to close a factory in Europe on the ground of overcapacity.

He said: "We have agreed that when our colleagues are in dispute we will not allow Ford to increase or substitute production elsewhere or to import substitute vehicles or parts."

There would be concerted pressure on the company to make agreements on the amount of domestic content in a car, Mr Passingham added, and there would be an intensified campaign to reduce working hours worldwide.

The conference agreed to set up close links between Ford plants in different countries, such as between Ford factories in Bridgend and Valencia, Halewood and Saarlouis, and Cologne and its U.S. equivalent.

A central bank of information will be established to provide the unions with international reports on Ford activities.

Delegates also agreed to form a "provisional workers' sub-committee on Europe", which will meet regularly during the next year and report to the next world workers' conference, which organisers hope to see held in 1986.

Mr Passingham, secretary of the Ford UK conveners' committee, said shop-floor support for inter-country embargoes had been demonstrated when IG Metall, the West German union, had been in dispute over working hours. Ford had tried to import substitute parts from South Africa into the UK and the workers had refused to use them.

"Obviously thet will happen increasingly if they try to do it again," Mr Passingham said. "I am not saying it will happen overnight, but we have laid the foundations."

The unions did not accept that there was overcapacity, especially since Nissan could see a potential for 200,000 extra cars by building in Britain.

All unions were represented at the conference, including those for staff. Mr Passingham said his own union, the Transport and General Workers, welcomed the developments

Up to 40,000 jobs may go in reorganisation of coalfields

BY JOHN LLOYD, INDUSTRIAL EDITOR

THE NATIONAL Coal Board (NCB) has told its area directors to cut back hard on manpower in the next financial year. Some directors believe that, as a result, as many as 40,000 jobs could be lost in the next 12 months.

At the same time plans to move many of the NCB's functions and staff from London to a new national centre in Nottinghamshire are expected to be approved by a board meeting later this week, with the appointment of new directors to the most senior posts directly below the board.

The board also expects to begin talks with all three mining unions reasonably soon, as the overtime ban – tha maintenance of which prohibits normal working – continues to crumble.

The area directors were told last week to conduct an "exercise" in making as many mineworkers redundant as they could, while maintaining production targets. Initially this would merely be a paper exercise, but some directors have been told that the aims are real.

Area totals will vary widely and have still to be produced. Some directors believe, however, that the cumulative lists of closures completed or planned in the next year could amount to more job losses, perhaps twice as many as the 20,000 mooted in the plans announced on March 6 last year to cut 4m tonnes of capacity. Those plans helped to trigger the year-long strike.

These cuts, once implemented, would be effected if possible by means of voluntary redundancies. They would involve substantial reorganisation and redeployment of mineworkers in those areas where numbers of mines will close. Miners who wish to stay in the industry – and well over 20,000 of the 180,000 miners indicated during the strike they wished to leave – would be required to move to new pits with a secure future.

At least 20 pits nationwide are on area directors' immediate lists for closure. The fate of the three heavily loss-making pits which make up the Kent coalfield is uncertain, but they are unlikely to survive unscathed.

There is, however, confusion about the mechanism for closing pits where the union disputes closure. The agreement reached between the NCB and the pit deputies' union, Nacods, last October, lays down that all pits must go to a revised procedure modified to include an independent element – but the National Union of Mineworkers is not party to this agreement and cannot, under the board's edict, enter into talks until the overtime ban is taken off.

Secret fuel supply for steel

British Steel Corporation survived the year-long miners' strike partly with the help of secret coal shipments from Australia. These shipments, which passed through the Netherlands and Belgium in order to disguise their origin, were made in spite of the policy of Australian transport workers to prevent coking coal deliveries being dispatched to the UK, according to the FT International Coal Report. Much of the coal entered the UK classed as Dutch coal – although no mines operate in the Netherlands.

Shipments from Australia to the Netherlands and Belgium rose substantially last year with the Dutch taking 2.2m tonnes compared with 664,247 tonnes in 1983. The only blast furnace operator in the Netherlands, Dutch steel producer Hoogovens, claims that it purchased no more than 925,000 tonnes.

'Buy British' test case on N. Sea contracts

BY IAN HARGREAVES

A ROW over the Government's "Buy British" policies for the North Sea oil supply industry is taking place around Shell's plans for the £2bn development of its Gannett and Kittiwake fields.

The oil company is close to placing orders for conceptual design work on the platforms for the project which is expected to be one of the largest in the North Sea in the next decade.

With more than 200m barrels of recoverable reserves, divided into several structures, the two linked fields will require a series of platforms. Gannett-Kittiwake is expected to be in production in the early 1990s.

It appears that the Government's Offshore Supplies Office (OSO), which administers North Sea developments, is using the field as a test case to enforce the pro-British procurement policies set out for the future in the terms of the current ninth round of licensing.

These terms state that oil companies applying for permits must demonstrate their commitment to fostering UK-based research and development and the UK design and testing of new products and techniques.

U.S.-owned companies, such as Bechtel, Foster Wheeler, Fluor and Brown and Root have traditionally dominated the conceptual design field in the North Sea. In the past they have been assured by the OSO that they are defined as British for the purpose of Government procurement requirements.

All these U.S. companies have large resident UK staffs and some use the UK as an export base for offshore technology and engineering.

The U.S. companies, however, have been told by Shell that the OSO has pressed the oil company to place a substantial part of the conceptual design for Gannett-Kittiwake with British-owned engineering groups, even though the British companies are said not to have been Shell's first choice on commercial grounds.

"We have always been considered British in the past but now they have switched the rules in the middle of the game," said one senior executive from a U.S.-owned company.

The OSO would not comment on the Gannet-Kittiwake negotiations, but officials point to the ninth round procurement criteria as a relevant background to the case even though the fields were discovered several years ago.

Shell said it would be awarding four separate design contracts for the fields, worth around £15m in total, but would not comment on the prospects for individual bidders.

John Brown, one of the UK companies believed to have benefited from the OSO's intervention, confirmed that it had bid for some of the design work. Other bidders are thought to include Bechtel, Fluor, Foster Wheeler, Worley Engineering and W.S. Atkins.

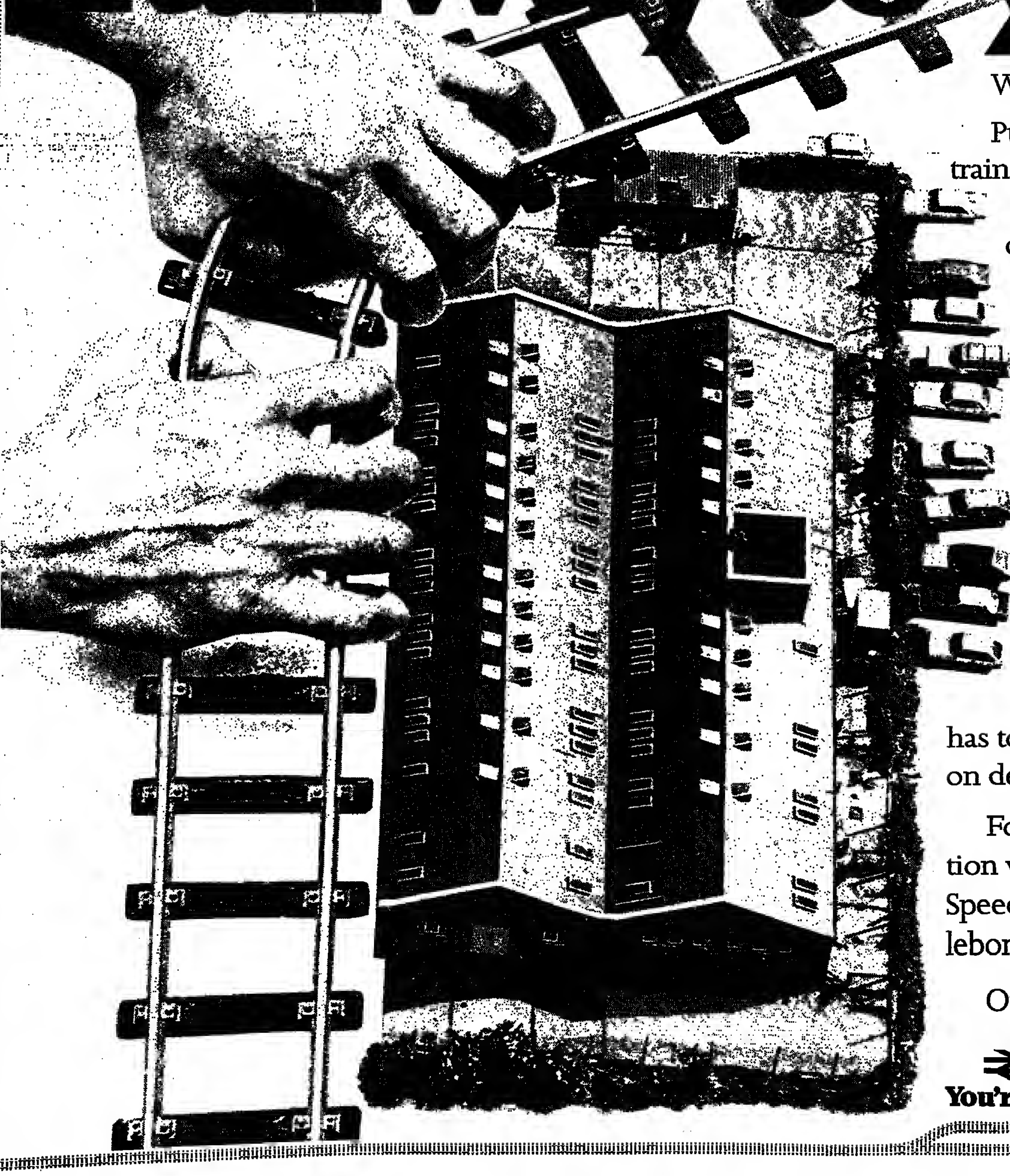
Bechtel declined to comment on the negotiations, but the company is typical of the large U.S. offshore engineering companies which are suffering a serious hiatus of work in the UK. The drilling boom stimulated by the 1983 budget has not yet worked through to become a field development boom.

Bechtel's workforce in the UK has fallen from over 2,500 in 1982 to 1,000 at present. Worldwide, the group's workforce has fallen from 45,000 to 30,000 in 18 months.

In recent months energy ministers have made it clear that they want the next phase of North Sea development to foster the emergence of free-standing British-owned engineering companies capable of providing an export base when UK oil production runs down later this century.

services by throwing the door | Trade union political funds | a whole series of cases through

هكذا من الأصل



UK NEWS

State shipyard poised to win £45m contract

BY ANDREW FISHER, SHIPPING CORRESPONDENT

BRITISH SHIPBUILDERS is on the verge of winning one of its biggest merchant ship orders: a £45m heavy-lift crane vessel to be built by the successful Sunderland Shipbuilders subsidiary for a UK owner.

The order, to be placed by International Transport Management (ITM) of Middlesbrough, might be announced this week. It would be bigger than the £40m contract recently won by Govan on the Clyde to build a big North Sea ferry.

The Sunderland yard, currently building two sophisticated offshore support vessels for Stena Line of Sweden worth just over £30m each, hopes also to convert an option for a third such ship into a firm order.

The expected contract from the privately owned ITM, which caused a furore two years ago when it ordered a £10m cable-laying ship from South Korea, would bring state-owned BS's merchant order tally so far in 1985 to nearly £170m.

Also expected soon is news of the successful bidder for BS's Yarrow warship yard on the Clyde. Both contenders in the £30m bid contest, General Electric Company (GEC) and Trafalgar House, said at the weekend that they hoped to hear soon from the Government. No decision has yet been taken, the Department of Trade and Industry said.

The ITM order is one of several that BS has been negotiating for some months. The Govan yard also hopes to win an order from Turkey for three bulk carriers worth up to £80m in total.

Mr Alfred Duffield, chairman and managing director of ITM, said: "The order is being done in recognition of the fact that British yards can only survive if they build specialist equipment rather than scrambling for standard ships."

That is the policy that Mr Graham Day, BS chairman since autumn 1983, has been pursuing in the face of the prolonged crisis in world shipbuilding. He is seeking to bring down the group's heavy losses.

The new ITM crane-ship will have special computerised dynamic positioning equipment to make it as versatile as possible for offshore use in deep and shallow waters, Mr Duffield said.

ITM, set up in 1976 and half-owned by Mr Duffield, an accountant who previously worked on Vickers's engineering side at Barrow-in-Furness, operates offshore vessels, rigs, crane and cable ships, and has a £30m turnover.

The latest surge of merchant orders at BS should help the group to reach its goal of break-even in a few years' time after trading losses of a record £161m in the financial year to March 31, 1984, and an expected £50m in the year about to end.

A glimpse of daylight, Page 15

Employers concerned about pay levels

By Michael Cassell

NO PAY explosion has occurred in UK industry during the present bargaining round but pay rates are still rising faster than in most other industrialised nations, according to the Confederation of British Industry, the employers' organisation.

The CBI in its latest employment affairs report expresses continuing concern about the level of earnings and points out that, at the same time, the UK's rate of growth in productivity has slowed sharply, to lag behind other competing countries.

The CBI says that unfavourable trends in the UK's international cost competitiveness have been dwarfed by the exceptional weakness of sterling against the U.S. dollar but emphasises that its performance is still at historically poor levels when compared with almost every other leading industrial nation. The underlying trends, it says, remain "extremely worrying."

The confederation adds: "In any event, relying on a depreciating currency provides no satisfactory or longer-term answer to a failure to match, and then improve on, the cost performance of other countries."

Information collected by the CBI shows that most pay settlements reached in December ranged from 4.5 per cent to 7.5 per cent in manufacturing and private services. An inability to increase prices, also low profits, remain the strongest-felt downward pressures in manufacturing-sector pay negotiations, with the cost of living the most widely quoted upward pressure.

The CBI reports that concessions on working time remain at historically low levels, with more than nine in ten manufacturing settlements showing no change in the length of the basic working week.

According to the CBI, the increase in earnings in manufacturing industry averaged 8.5 per cent in 1984, compared with 6.5 per cent in France, 4 per cent in Japan and the U.S. and 3.5 per cent in West Germany. While UK productivity growth in 1984 was less than half the previous year's level – at 2.5 per cent – the figure reached 10 per cent in Japan, 7.5 per cent in France, 6 per cent in West Germany and 3.5 per cent in the U.S.

One in 10 of workforce self-employed

By David Brindle

A GREATER proportion of the workforce is self-employed than at any time since 1921, according to the Manpower Services Commission (MSC).

Last year's total of 2,465,000 self-employed people was up 32 per cent since 1970 and represented one in 10 of the workforce, the MSC says in its latest Labour Market Quarterly Report, published today.

The report suggests that the number of self-employed women has risen dramatically. Although it was only 446,000 in 1981, within two years it had increased 24 per cent compared with a rise of 2 per cent in the number of self-employed men.

The report also points to rising trends in long-term unemployment. During 1984, it says, the number of those registered unemployed for more than 12 months rose by 11 per cent and the number of jobless for more than three years rose by 38 per cent to 420,000 – 13 per cent of the total.

MSC Labour Market Quarterly Report; MSC, Moorfoot, Sheffield, S1 4PQ.

Skilful marketing 'key to cable TV future'

BY RAYMOND SNODDY

HIGH QUALITY management and skilful marketing will ensure the success of cable television in the UK, a new report by City University Business School consultants argues.

The consultants concede that cable faces problems in the short term, but are "relatively optimistic" about future prospects.

"The cable industry has a unique opportunity to exploit the growth and convergence of the home entertainment, communications and information markets. If managed skilfully, cable should play an integral role in the British way of life into the next century," the report, Marketing Cable Television in the UK, says.

Market research for the report shows that core market for cable is the large and growing minority of British consumers who have already shown an interest in both video and home computers.

The research carried out in Croydon south of London – one of the 11 areas chosen as pilot franchises in November 1983 – indicates that interest in cable is low in the over-50 age group. It concludes that best prospects are households which are already high users of television with a head under 34, or middle-aged parents with teenage children.

The consultants say that because cable will have limited appeal to some demographic groups "it will remain difficult to achieve average take-up rates beyond the 25-30 per cent level required to break even in a typical franchise area."

The City team believes that the outcome is not predetermined and the marketing and management skills of the operators will be the key to cable's future, Mr Brian Sturgess, leader of the team, says: "This year is likely to be the year of opportunity for cable. The key to success lies in a sophisticated marketing campaign designed to establish strong identity for the different local franchises."

In a companion report, Financing Cable Television, the consultants say that there are banks willing to finance properly structured and well-thought-out cable proposals.

Marketing Cable TV, £485; Financing Cable TV, £645 from SRW Publications, 3 Heads Mews, off Needham Road, London W11.

Pre-budget equity boom for property developers

BY WILLIAM DAWKINS

INVESTORS appear to be rushing to take advantage before tomorrow's budget of the current wave of property companies offering equity under the Business Expansion Scheme's (BES) tax incentives.

Eight such ventures reported last week that they had beaten their minimum subscription level.

Mr John Dodwell of Chancery Securities, which by Friday had raised just over £560,000 for Grosvenor Terrace Developments, as against a minimum subscription of £400,000, said: "Applications are coming in faster than we can record them."

One property venture, Lockton Developments, had to issue an extra £2.5m worth of shares to meet investors' demand. Originally, Lockton was seeking to raise a maximum of £7.5m.

Mr William Wallis of Guinness Mahon, the merchant bank sponsoring Lockton's offer for subscription, said: "The tax relief has obviously been a factor. People have tended to like investing in something they can see rather than going into a pooled fund."

Fears that the Chancellor might exclude property developers from the BES tomorrow are also believed to have contributed to the rush of property ventures raising BES equity.

Palmerstoo Property Developments, which by the end of last week had raised £2m as against a £500,000 minimum subscription, is offering a beat-the-budget service for last-minute investors. Prospectuses will be available throughout the country today at the offices of Savills, the surveyors, and chartered accountant Neville Russell. Couriers will take application forms to London, where they will be processed by the licensed dealers sponsoring the issue, Lancashire & Yorkshire Investment Management, before the Chancellor speaks.

The other property-related BES companies to have reported that they beat their minimum targets last week includa Great Gable, Smithfield Developments, Historic City Developments, St Giles Construction and Lincourt Retirement Homes.

BASE LENDING RATES

A.B.N. Bank	14 %	Johnson Matthey Bkrs.	14 %
Allied Irish Bank	14 %	Knowsley & Co. Ltd.	14½%
Henry Ansbacher	14 %	Lloyds Bank	14 %
Amro Bank	14 %	Edward Manson & Co.	15 %
Associates Cap. Corp.	14 %	Meghraj & Sons Ltd.	14 %
Banco de Bilbao	14 %	Midland Bank	14 %
Bank Hapoalim	14 %	■ Morgan Grenfell	14 %
BCCI	14 %	Mount Credit Corp. Ltd.	14 %
Bank of Ireland	14 %	National Bk of Kuwait	14 %
Bank of Cyprus	14 %	National Girobank	14 %
Bank of India	14 %	National Westminster	14 %
Bank of Scotland	14 %	Northern Bank Ltd.	14 %
Banque Belge Ltd.	14 %	Norwich Gen. Trust	14 %
Barclays Bank	14 %	People's Tst & Sv. Ltd.	15 %
Beneficial Trust Ltd.	15 %	Provincial Trust Ltd.	15 %
Brit. Bank of Mid. East	14 %	R. Raphael & Sons	14 %
■ Brown Shipley	14 %	P. S. Refson	14 %
CL Bank Nederland	14 %	Roxburghe Guarantee	14½%
Canada Perm'nt Trust	14 %	Royal Bank of Scotland	14 %
Cayzer Ltd.	14 %	Royal Trust Co. Canda	14 %
Cedar Holdings	14 %	■ J. Henry Schroder Wagg	14 %
■ Charterhouse Japhet	14 %	Standard Chartered	‖14 %
Choulartons**		Trade Dev. Bank	14 %
Citibank NA	14 %	TCB	14 %
Citibank Savings	¶12½%	Trustee Savings Bank	14 %
Clydesdale Bank	14 %	United Bank of Kuwait	14 %
C. E. Coates & Co. Ltd.	14½%	United Mizrahi Bank	14 %
Comm. Bk. N. East	14 %	Westpac Banking Corp.	14 %
Consolidated Credits	14 %	Whiteaway Laidlaw	14½%
Co-operative Bank	*14 %	Williams & Glyn's	14 %
The Cyprus Popular Bk.	14 %	Wintrust Secs. Ltd.	14 %
Dunbar & Co. Ltd.	14 %	Yorkshire Bank	14 %
Duncan Lawrie	14 %		
E. T. Trust	14½%		
Exeter Trust Ltd.	14½%		
First Nat. Fin. Corp.	15½%		
First Nat. Secs. Ltd.	14½%		
■ Robert Fleming & Co.	14 %		
Robert Fraser & Ptns.	14½%		
Grindlays Bank	†14 %		
■ Guinness Mahon	14 %		
■ Hambros Bank	14 %		
Heritable & Gen. Trust	14 %		
■ Hill Samuel	§14 %		
C. Hoare & Co.	†14 %		
Hong Kong & Shanghai	14 %		

■ Members of the Accepting Houses Committe.

* 7-day deposits 11%, 1 month 11.75%. Fixed rate 12 months £2,500 11.75%. £10,000 12 months 12%, £10,000 up to £50,000, 12¼%, 12.00%.

† 7-day deposits on sums of under £2,000 11%, £2,000 up to £10,000 £50,000 and over 12½%.

‡ Call deposits £1,000 and over 11%.

‖ 21-day deposits over £1,000 12½%.

¶ Mortgage base rate.

§ Demand deposits 11%.

** See Provincial Trust Ltd.

UK NEWS

SCRAMBLE TO COMPLETE EQUIPMENT DEALS WORTH HUNDREDS OF MILLIONS OF POUNDS

Rush to beat capital allowances squeeze

BY ANDREW TAYLOR

BRITISH COMPANIES have been rushing to complete hundreds of millions of pounds worth of capital investment in plant and equipment in order to qualify for tax allowances which are due to be cut by a third from April 1.

The changes stem from the budget last year. First year capital allowances, due to be replaced by new arrangements next year will be cut from 75 per cent to 50 per cent at the end of this month.

To sweeten the pill, Mr Nigel Lawson, Chancellor of the Exchequer, said the burden of corporation tax would be cut correspondingly as first year allowances fell away. Next month, for example, corporation tax will be cut from 45 per cent to 40 per cent, falling to 35 per cent by April 1986.

The Chancellor claimed that the transition would have a "neutral effect on the financial position of companies" and that "when the changes have fully worked through, companies will enjoy very substantial reductions in the tax they pay."

The Confederation of British Industry (CBI) has strenuously challenged this assertion, however. It claims that the cash flows of many companies will worsen during the changeover. It also doubts whether there will be long-term benefits.

Mr Charles Burton, deputy director of economics at the CBI, says: "We accept that 100 per cent allowances gave an unfair tax advantage to capital intensive industries turning over plant and equipment on a regular basis. But we do not believe this is the right solution."

Ha argues that many companies will face higher tax charges for several years until allowances build up sufficiently to offset the loss of substantial first year tax benefits. Most disadvantaged will be companies which work their assets hard and have to replace them regularly.

According to the CBI a company renewing equipment after just two years would have offset only 43.75 per cent of the original cost of the investment against taxable profits. It would take until the sixth year to write off 80 per cent of the cost.

If inflation is added into the calculation the real rate of depreciation is much longer, the CBI adds. With an inflation rate of 5 per cent a year it would take until the eighth year to write off 80 per cent of the real cost of replacement. At an inflation rate of 10 per cent it would take more than 15 years.

"Many companies will face an unenviable choice of either slashing their investment plans or running into serious cash problems."

It proposes two main changes to the Chancellor's plans:

- Extend first time allowances for a further 12 months and delay implementing the new rules until April 1987;
- *Modify* the rules so that assets can be depreciated for tax in four years on a straight line basis of 25 per cent per annum instead of spreading allowances over many years on a reducing balance.

Companies which have been engaged in a scramble to complete investment transactions before the April deadline include British Caledonian Airways, the largest UK independent operator. It has been trying to finalise leasing agreements for two wide-bodied jets worth $100m, while Vauxhall Motors has been pressing to complete financing arrangements for two new paint shops worth about £100m.

Mr Parry Mitchell, chairman of United Leasing, one of Britain's biggest computer leasing companies, says. "We have been frantically busy and expect to be so right up until midnight on March 31. Interest rates on leasing contracts are at present around 4 per cent and are very competitive. These can be expected to rise to between 8 and 9 per cent after the reduction in capital allowances."

This bunching of expenditure, judging by the experience of leasing companies, suggests that manufacturers of plant and equipment should be enjoying a small sales boom. Tha effect, however, has not been uniform. Some manufacturers also emphasise that increased sales reflect purchases that have been brought forward rather than new business.

Bridgeport Textron, Britain's biggest machine tool manufacturer, making milling machines and machine centres, has reported record sales for February which it partly attributes to the reduction in capital allowances.

Sales of heavy trucks also increased by 21 per cent last month compared with February 1984. Commercial vehicle producers say thet the effect of higher capital allowances helped increase demand last month.

Massey Ferguson, one of Britain's largest agricultural equipment suppliers, says that tractor sales after a modest start to the year have risen dramatically in tha last three weeks as farmars have realised how little time is left before allowances are cut.

TECHNOLOGY

EDITED BY ALAN CANE

AUTOMOTIVE MANUFACTURERS AIM FOR COMPUTER INTEGRATED PRODUCTION

Computers in control of car making

BY GEOFFREY CHARLISH

THE automotive industry is now working hard to become one of the first to achieve computer integrated manufacturing (CIM), unifying the use of computers in design, engineering, and the new production techniques such as flexible manufacturing and robotics.

In 1984 alone the industry spent $340m on computer-aided design, engineering and manufacturing (CAD/CAE/CAM) according to market leader Computervision. Between now and 1990, the expenditure is unlikely to be less than $1.5bn.

By using screen, keyboard and computer instead of peocil and paper, vehicle engineers can produce higher quality designs more quickly, cutting costs and getting new vehicles to market more rapidly.

CIM uses the important central idea that once the geometric data about an item has been established vie CAD, it can be used in other important ways. For example, with additional software and physical data, the mechanical loading, thermal and vibrational properties of the item can be examined on-screen (CAE).

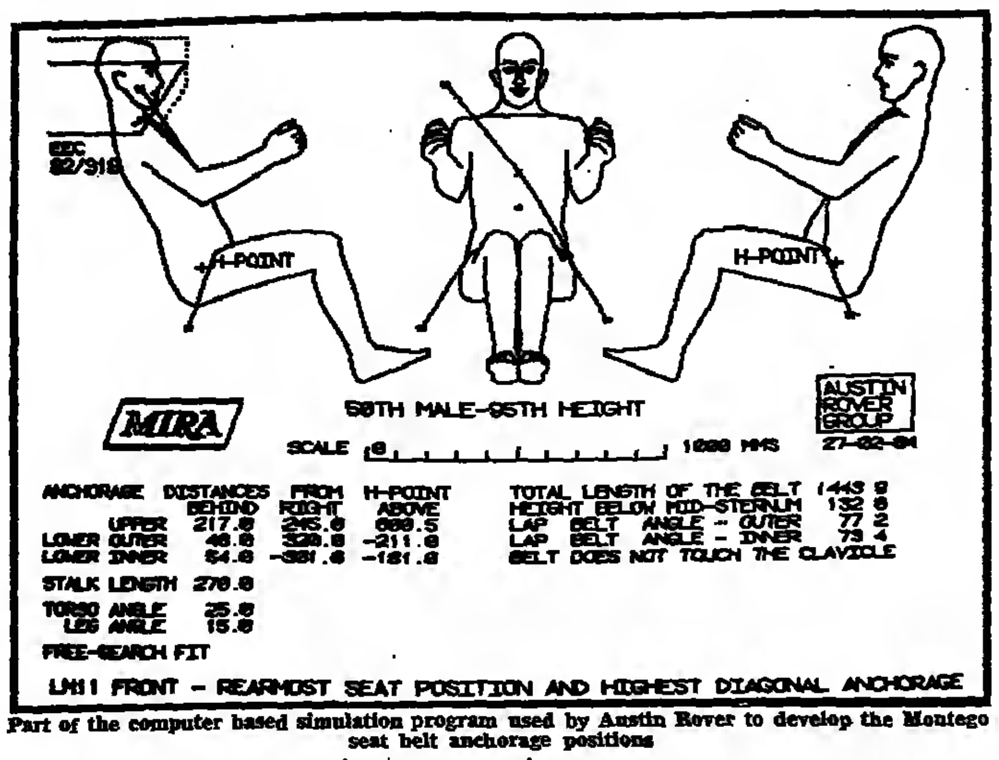
Similarly, complete knowledge of the part's geometry allows data to be generated for computer-controlled machine tools to make parts automatically (CAM). Most car companies also plan eventually to feed the data to flexible manufacturing and assembly systems, robots and other advanced manufacturing systems.

In 1984 alone, the industry spent $340m on computer aided design, engineering and manufacturing.

But this is still a gleam in the production engineer's eye et the moment. One problem is that the controllers within the various "islands" of automation come from different kinds of manufacturer, use e variety of computers and protocols, and so cannot easily "talk" to each other.

It is a large-scale software problem, but most experts expect CAD to be the nucleus from which integrated eutomation will grow.

At Austin Rover, computer integration is seen as an opportunity to become more competitive with the larger motor manufacturers by redocing unit costs for medium volume production.



Part of the computer based simulation program used by Austin Rover to develop the Montego seat belt anchorage positions

As at most other car companies, Austin Rover designers start with a traditional clay model to allow the new car concept to be seen et or near full size — even though modern CAD systems can prodnce coloured, 3D solid models on screen. The model is then probed with a co-ordinate measuring machine, which records its shape and dimensions digitally for use in the CAD system. Then, various pressings and the necessary tooling can be derived.

Powertrain, chasis and suspension components, similarly designed by CAD, can be graphically fitted into the shell, obviating a good deal of prototype component febrication. Component fit is guaranteed by the fect that all the designers are working from the same database.

Using Computervision equipment, Austin Rover (AR) seats "computer mannequins" at the wheel to check space needs and control reaches. The mannequins can be articulated on-screen and can even be made to "look out of the window" to determine the vehicle's driver visibility.

With press tool deta taken directly from the CAD surface, detail of the panel, tool design and manufacture costs have been reduced by 30 per cent at AR. Ford is similarly pleased: "The first tools made totally by CAD CAM were the best ever," says Mr John Saville, CAM systems manager.

Clearly, the industry is taking the "factory of the future" very seriously. Ford, for example, states that by 1990 most of the components in its vehicles will have been designed using computers. It has 1,000 terminals installed, of which 160 are in Europe.

Ford runs two CAD systems in parallel. One, developed in-house, is used for body design and body panel press tooling. Prime Computers has been licenced to sell it. The other, a Computervision system, designs powertain components.

The car companies have been quick to see thet design/manufacturing data communications might be usefuly extended to their suppliers. Ford has 700 or more and is in the process of familiarising them with CAD-CAM with a view to drawing/data electronic interchange. The company's manager of supplies planning Mr Mike Creighton has told suppliers that CAD-CAM capability "could well become mandatory to meet the equality, reliability and productivity objectives of the future."

Like Ford, General Motors has an in-house system for body design via clay. GM subsidiary Bedford Commercial Vehicles also uses an IBM CADAM system for mechanical/electrical component and system design—e total of 100 terminals are in use. Bedford has spent £8m to achieve full integretion with the GM international system and with the GM Bus and Truck Group.

Both multinationals are developing sophisticated data communications systems using land line and satellite, allowing exchange of drewings over thousands of miles.

In addition, GM continues to develop and promote its Manufacturing Antomation Protocol (MAP) which allows equipment from many makers to communiceete using the International Standards Organisation "open system." More will soon be heard of this in Europe.

MEDICAL RESEARCH

Swedish move in AIDS vaccine

BY DAVID BROWN IN STOCKHOLM

THE U.S. National Cancer Institute in Maryland (NCI) and the Swedish National Veterinery Insitute (NVI) have begun evaluating a technology which may lead to the development of a vaccine against the dreaded acquired immune deficiency syndrome (AIDS).

The research is based on discoveries by Prof Bror Morein of the biomedical centre in Uppsala in the field of Iscom (or immunostimuleting complex) technology.

Prof Morein has found a method of extracting the protective antigens (or thet part of a virus which produces disease immunity) from some deadly viruses. Among these viruses is one which causes feline leukamia as well as an AIDS-like disease in cats.

Combining these antigens with a beningn glycogen-based carrier, be has succeeded in producing e vaccine against the disease itself, without producing the symptoms of the disease.

Antigens, protein molecules, in the ooter coat of the virus, cause the appearance of antibodies, proteins which fight disease, in the victim.

The significance of such a vaccine is that it is not a potential disease carrier in its own right, thus making it a potential boon in the treatment of other difficult "enveloped viruses" not least HTLV-3 which causes AIDS. What now remains to be seen is whether a specific vaccine will work.

Prof Morein epproached NCI because "it is doing the most advanced work in this field and is most likely to produce speedy results. This is wbat we're all

An NCI AIDS research project director said this week that "Prof Morein's technology will probably prove to be a key ingredient in what we're out to do."

In the first phase of an intensive new programme of research and evaluation, the two institutes will test methods of purifying the outer envelope or protective antigens of HTLV-3 and binding this with a carrier. This procedure is likely to extend into the late summer.

This work will be followed by direct tests on laboratory animals to see whether the virus actually produces the desired immune response to AIDS.

Researchers on both sides of the Atlantic are careful to stress that the work is et e very preliminary stage and are anxious to qnell speculation of an early anti-AIDS virus. Still, the initial indications are positive and, as one NCI worker says, "we're very excited."

The two institutions will share the results of their joint effort. Later this year, they will meet to decide whether this initial experimentation warrants larger-scale work leading to tests on human subjects.

At this point commercial questions would come more directly into play. Prof. Morein has filed for patent protection for the iscom technology be has developed. The cancer institute for its part would have automatic title to any new invention that might result from the current experimentation. It would invite bids from industry to produce a vaccine under license, bot would also he required to grant a non-exclusive license to the Swedes.

What remains perhaps the more interesting long-term question—given that spate of massive liability settlements recently granted by American courts—is whether any large American pharmaceuticals manufacturer wil be ready to take on the challenge.

Materials Conference

Carbon fibres

THE Plastics and Rubber Institute is to hold a conference on the application of carbon fibres between October 8-10. This year the conference will place emphasis on the application of the fibres in a variety of reinforced plastics structure components ranging from car engines to space antennaes and catamarans to medical prosthesis. More details from the Institute in London on 01-245 9555.

Fast food

The can that heats its contents

YOU HAVE heard of fast food but now comes self-heating convenience food. The idea has been launched in time for Easter by a new company called Hotcan. It has built a factory in Rotherham in south Yorkshire to produce the food.

Initially four menus are on offer—beef and chicken casseroles, Irish stew and turkey curry. They are aimed at speciality markets such as for yachtsmen and boating enthusiasts.

The principle behind the hotcan is extremely simple based on schoolboy chemistry in the form of a reaction between limestone and water. There are two cans—the inner enclosed can contains the food while the out can contains the separated reactions ingredients. Water is introduced to the limestone by depressing a small plunger. The heat produced by the reaction is sufficient to heat the food thoroughly within about 10 minutes.

This is reckoned to be the first commercial venture involving a self heating food tin. The Hotcan was the idea of a Belgian inventor who joined forces with two British businessmen.

Funds of £750,000 have been raised mainly through the Business Expansion Scheme to set up the company which hopes to produce up to 5m hotcan tins in the first year of operation creating up to 30 jobs.

Production has already started on a limited basis using semi-automatic machinery but the company hopes to introduce a fully automated machine costing £350,000 within the next few months.

Mr Chris Hardwicke-Devlies, the company's marketing director, believes that there is a wide market for the product ranging from supplies for the military to providing hot meals for people whose jobs often mean working unsociable hours and those travellers who have limited cooking facilities.

Hotcan already has advanced orders of which half will be for export.

ELAINE WILLIAMS

Medicine

Dissolving blood clots

MITSUI TOATSU Chemicals and Beckman Research Institute of Los Angeles have jointly developed a genetic engineering method of making tissue plasminogen activator (tpa), a naturally occurring enzyme important in dissolving blood clots.

Tpa is two to three times more effective than an available treatment used currently, human urokinase, according to tests on animals by Mitsui Toatsu, said Mitsui.

TPA produced by Mitsui Toatsu causes more specific attacks on blood clot protein than human urokinase, cutting the risk of damaging blood vessels during treatment.

It is expected to replace human urokinase, which has domestic sales of Y60bn annually.

Clinical testing will start soon and Mitsui Toatsu expects to apply for Japanese Government production approval in three or four years.

Components

Computer processors

HITACHI LTD is introducing a new M-68X processor group for the most expensive end of the computer range aimed at the Japanese market.

It is also bringing out a number of new computer storage units, including a disk unit with five gigabytes of storage capacity.

Hitachi is expanding its 32-bit computer products and strengthening its software range. The new processors and peripheral devices will be available in the fourth quarter of 1985 and the upgraded software in the second quarter.

The world looks up to British Aerospace.

British Aerospace is a company whose heritage reaches back over 75 years to the earliest pioneering days of aviation.

Today, we unite in one major enterprise the aircraft, guided weapons, electronics and space engineering interests of British Aircraft Corporation, Hawker Siddeley Aviation, Hawker Siddeley Dynamics, Scottish Aviation and Sperry Gyroscope.

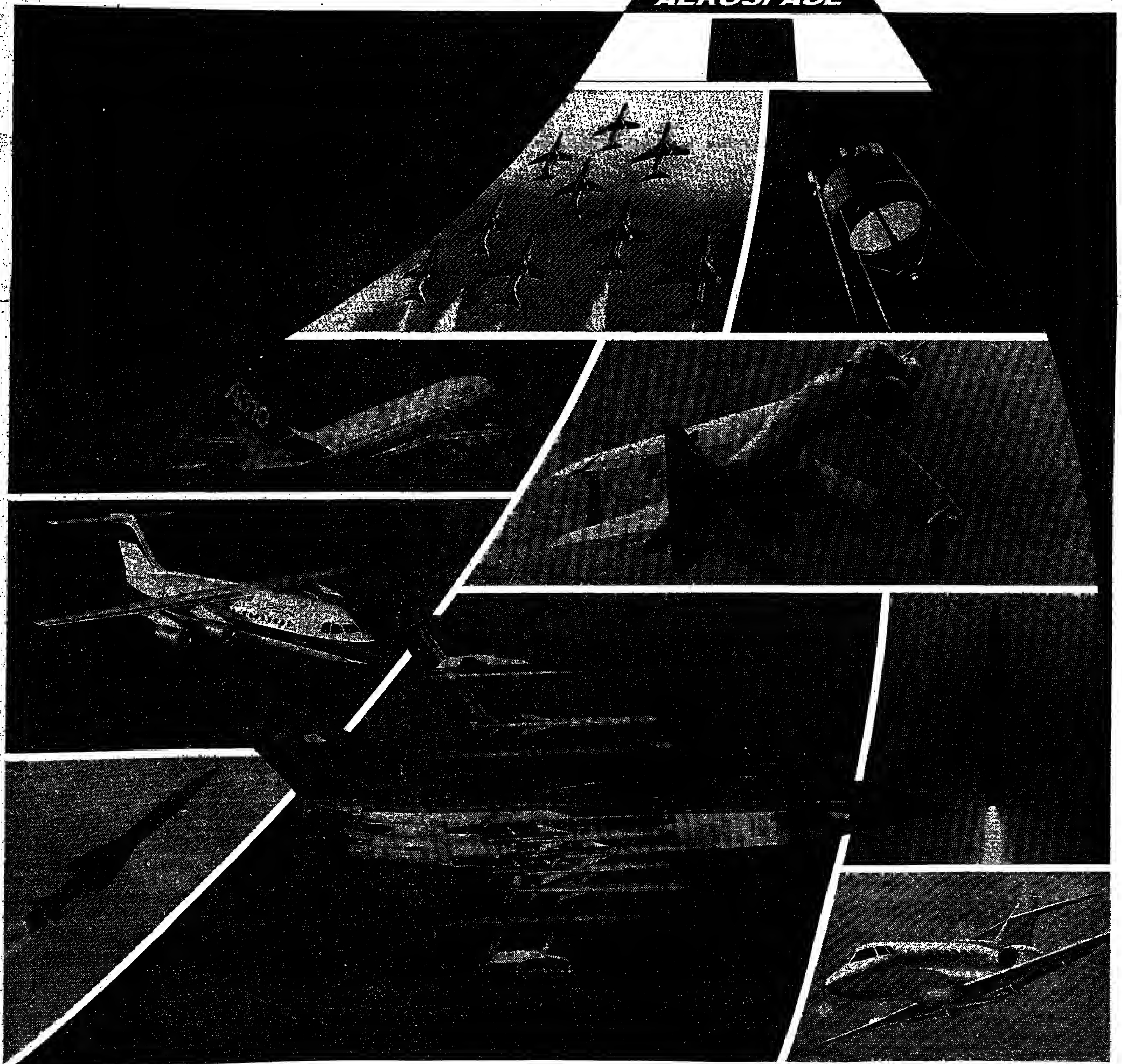
We are involved in designing and building civil and military aircraft with sales to over 40 nations; we design, produce and sell a wide range of guided weapons systems, communications and scientific spacecraft.

British Aerospace is one of Britain's largest exporters of manufactured goods.

Last year over 60% of the company's total sales were to overseas customers.

In January it was announced that an offer of shares in British Aerospace was proposed. If you are interested in finding out more about the Company and its products, look out for our advertisements in the Press in the coming weeks.

BRITISH AEROSPACE



Issued by Kleinwort, Benson Limited on behalf of British Aerospace Public Limited Company and by Lazard Brothers & Co., Limited on behalf of H M Government.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Caterpillar Tractor

Battered but unbowed

Stewart Fleming on the U.S. group's efforts to adjust to a radically changed climate

JUST FOUR years ago Caterpillar Tractor was attracting such plaudits as "the indisputable world champion of the earth-moving equipment industry." But having since piled up almost $1bn of losses in three years it is today one of the walking wounded of America's corporate sector.

It is also a company whose fate is hotly debated, not only on Wall Street but also on Capitol Hill. For in the eyes of some observers, Caterpillar has become a symbol of what is alleged to be the progressive erosion of this sector of American manufacturing. It is a sector finding it harder and harder to compete in the face of a super strong dollar which is undermining price competitiveness in domestic and international markets.

But Caterpillar has been battered by more than just a strong dollar and U.S. trade laws — which it now maintains are not protecting it from unfair competition. To e degree, the company shot itself in the foot in the 1970s. Then, it vigorously expanded its U.S. capacity when world market for earth-moving equipment boomed. It was called into a false sense of security concerning its own labour and production costs by both the strength of demand for its products and a weak rather than strong dollar.

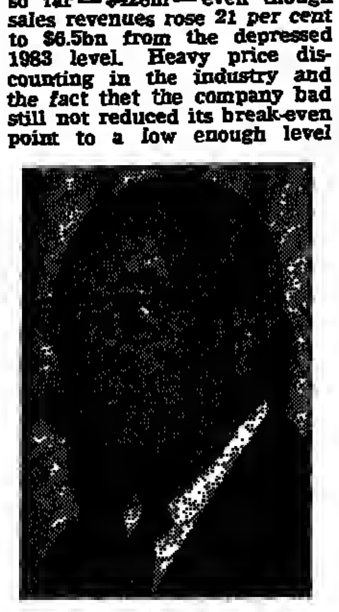
Wall Street would today be more confident of Caterpillar regaining earlier levels of profitability were it not for the emergence on the scene of a rival, Japan's Komatsu. This, Caterpillar's officials concede, adds another dimension to the challenge. "We are facing e new competitive threat of greater magnitude that we have ever faced before . . . no other competitor in our business has ever echieved that breadth of product line and level of efficiency and quality," says the recently retired Caterpillar chairman, Lee Morgan.

His conclusion was underlined starkly recently by Komatsu's announced decision to take the battle into Caterpillar's back yard by opening its own production facilities in Tennessee. Caterpillar now believes that nothing short of a change of corporate culture is needed to secure its long-term future.

Caterpillar's corporate crisis erupted suddenly in 1982. Then, a year after reporting record earnings of $579m, its reputation as one of the best managed firms in American business was shattered by a $180m loss. This brought to an abrupt end an unbroken earnings record stretching back 50 years.

Last month the Peoria, Illinois-based concern reported its third consecutive year of red ink. It projected another loss for the first quarter of 1985 and warned that, although it holds out hopes for a return to profitability this year, the outlook is still uncertain.

The 1984 loss was the largest so far — $428m — even though sales revenues rose 21 per cent to $6.5bn from the depressed 1983 level. Heavy price discounting in the industry and the fact thet the company had still not reduced its break-even point to a low enough level



Lee Morgan: "A threat of greater magnitude than we have ever faced before"

contributed to its problems.

But there was one bright spot, the company claimed. This was that $268m of the loss reflected the costs of consolidation and plant closures. On Wall Street this was seen as e clear sign of the acceleration of tha company' drive to cut its costs. Caterpillar says that without these special charges 1984 pre-tax results would have been $394m better than the 1983 level.

The company' economy drive includes a startling reduction in its capital spending from $836m in 1981 to $234m last year. This purge has helped it maintain a far healthier balance sheet and cash flow than might have been anticipated in a concern suffering such a flood of red ink over its profit and loss account.

But Caterpillar's response to its changed circumstances has encompassed more than mere retrenchment, vital as that has been. It has involved a reassessment of strategies and policies which have been previously unchallenged for years. Typical is the decision to diversify both some of its production and procurement to cheaper non-U.S. suppliers. This is a strategy being adopted by a growing number of U.S. companies which have decided that it is a mistake to wait hoping that a declining dollar will ease the burden of a high cost production base.

Caterpillar itself concedes that the strong dollar has not been its only problem.

Arguably the high cost structure it has been suffering from can be traced back to the 1970s. Helped by an undervalued dollar and the booming international market for earth-moving equipment (especially in developing countries) Caterpillar was able to expand its sales, profits and capacity rapidly without worrying too much about costs. The high reputation of its products alone ensured that they commanded a premium price in the market in those heady days.

Morgan concedes that during this period the company made "extravagant" labour settlements. But he claims that industry wide trade union bargaining structures were partly to blame. On the other hand, the company did invest in highly automated plant during this period, a decision which has meant that its predicament is not as bad today as it could have been.

Extravagant labour settlements came to an ebrupt end at the beginning of this decade as the rising dollar, the rise of Komatsu and the collapse of the market hit Caterpillar. Morgan sees the dollar as giving its arch rival e 24-35 per cent unearned cost advantage. He says Caterpillar now plans on the basis not merely of current exchange rates but on what it estimates are future long term equilibrium exchange rates. "All of these things tell us that we have got to reduce our costs so we have been through a long programme of cost reduction, quality improvement and people involvement. These are gut-wrenching hard things to do. It creates a bit of a cultural shock for the organisation, says Morgan.

That programme, aimed at reducing unit costs by 22 per cent was accelerated last year as the company realised that an early fall in the dollar was not necessarily going to help solve its problems. It is now due for completion this year, a year ahead of schedule.

Employee numbers have been cut from 89,000 in 1979 to just over 60,000 at the end of last year. A seven month strike which ended in April 1983 enabled the company to secure a more favourable labour contract but there is a suspicion on the shopfloor that management will be looking for more labour cost savings in the future.

Cutting wage costs is not the only characteristic of the company's labour relations strategy.

At the same time, though, Tony Green, head of the United Auto Workers (UAW) union at the company's headquarters says the company is trying to inch towards a less confrontational style of labour relations, albeit, in his judgment, with mixed results. Morgan agrees that the search for more employee involvement and a more co-operative management labour relationship is under way.

Both men concede that this change in corporate culture is not easy to achieve. The local union seems to have problems convincing AUW headquarters in Detroit of the wisdom of the shift in direction. Morgan concedes that: "We have trained people here in a particular management style which was very, very effective for a time." He points out that it is not easy to persuade people to change and adopt a less autocratic approach to shopfloor relations.

"It's almost like getting rid of a bad habit and substituting a good habit," Morgan remarks, adding, however, that "it takes two to tango" and that the union has some attitudinal changes to embrace.

The company is changing the corporate culture in other ways too. Caterpillar once prided itself on its self-reliance. Today it is more willing than ever to look outside its own backyard for components and products.

"We are reducing costs by shopping the world to find the best price and quality in parts and components," the company says, hinting that if that involves going outside high cost countries such as the U.S. for equipment so be it. It is also consolidating its casting foundries in Peoria and buying more castings from outside suppliers. The production line for track loaders and D6 tractors in Iowa is being closed down and production moved to Grenoble, France, and Glasgow, Scotland, in search of economies.

In an even bigger break with the past it is putting its name on equipment manufactured by outside suppliers. Lift trucks are now manufactured by Daewoo Heavy Industries in Korea and a Norwegian concern, Kaldnes Mek v Versted.

Realising that weakening demand for some of its heavy earth-moving equipment necessitated e speedy expansion of its line of lighter products, the company is in the process of introducing some 50 new or improved products. Partly to echieve this without beavy capital expenditura Caterpillar turned to the German company Franz Eder Maschinenbabrik for a new line of hydraulic excavators which will carry tha Caterpillar brand. And to diversify its product line it is getting Caterpillar- branded road-paving machines from CMI Corporation of Oklahoma, under an exclusive distributorship.

"Leveraging" the network of over 200 full-time Caterpillar dealers worldwide is bow the company describes its steps to make the most of its dealers, an asset which it believes gives it a major competitive advantage. The company has also started specialist divisions to enlarge the financing alternatives for its dealers and to make it easier to provide counter trade opportunities in Third World countries short of foreign exchange.

Diversification has also taken it into new lines of business. Last year it acquired 20 per cent of a manufacturer of welding robots — advanced robotics—and it has just announced the first investment by its new venture capital subsidiary, a $2m, 12 per cent stake in Faired Robot Systems of Dallas.

The picture of Caterpillar which emerges is of a company struggling with adversity but resolntely and methodically charting a course out of it. Wall Street analysts who follow the industry say they are confident that Caterpillar will come through its tima of troubles but they are still asking when and at what level profitability will be restored.

Demand for Caterpillar's heavy earthmoving equipment having weakened the company has embarked on a swift expansion of its line of lighter products; some 50 new or improved products are being introduced

Slow move towards a unified structure

BY DAVID MARTIN AND BRIAN GROOM

CARETAKERS and typists on the same grade with the same pay and conditions. Accounts clerks and line operators in a single grade getting the same basic salary. Skilled craftsmen with the same grade, conditions end annual salary as assistant buyers.

A growing number of British companies are adopting this kind of unified grading structure for all their workforce, company-wide or on a particular site. As a key to unlock greater commitment, motivation and flexibility, it is probably the most significant future development for payment systems.

Progress is painfully slow, as with so many shopfloor trends in the UK. Fewer than 2 or 3 per cent of companies bave so far integrated their blue- and white-collar pay scales. But interest is growing.

It is becoming increasingly common in sweet and confectionery manufacture — at companies like Cadbury, Mars, and Thorntons, the high-quality chocolate producer — and spreading in brewing, can-making and packaging. It has started in engineering with agreements at Cummins Engine and Halset.

A number of pressures encourage the trend:

● It forms part of the general move towards harmonising the terms and conditions of manual workers and white-collar staff, giving them the same hours, holidays, pension and sick pay schemes, canteens and car parks. Britain still lags behind overseas competitors in removing these institutional "them and us" barriers.

● It assists the blurring of traditional blue- and white-collar job boundaries which new technology is causing. On computerised production equipment, for instance, some companies are using technicians with peper qualifications as trouble-shooters to back up time-served manual craftsmen on maintenance and repair.

● Companies want to develop pay scales which encourage people to learn extra skills in return for pay increments, and which impose no artificial barriers to their career progression.

● Many managements yearn to rationalise their fragmented bargaining units into a single structure for a company, division or factory, often with a singla new anniversary date for pay negotiations.

● The new legislation that men end women must have equal pay for doing work of equal value points to the logic of a single pay and grading structure covering all employees.

Thorntons, a family-owned company based in Derbyshire, has had a unified structure at its Belper site since the 1960s. Grading for all the 500 employees is based solely on the quality of decision-making in each job and assessed against six defined bands.

Mars, the U.S.-owned chocolate manufacturer at Slough, Bucks, has an integrated pay structure as part of a comprehensive single-status policy. All staff receive the same benefits. The only difference in treatment is the variation of pay levels according to responsibility.

These are both non-union, but integrated systems have been introduced in a unionised environment at Cadbury's 15-year-old Chirk plant, North Wales, and Continental Can's greenfield site at nearby Wrexham.

They are spreading to older sites. After lengthy negotiations Cummins Engine last year reached agreements at its Darlington, Shotts and Daventry plants which integrated the pay structures and allowed workers to win extra annual pay rises by acquiring "skill modules."

White-collar unions can be wary of loss of privilege, but companies need not find their objections insurmountable. Manual unions generally endorsa the changes as a means of improving terms and conditions.

Many companies evidently still do not see the need for change. Some believe a single scale for everyone would be too cumbersome. Others object to the cost of the improved pay and benefits which tend to ecompany such deals. But if their competitors become more efficient by this means, failure to change may prove more expensive.

David Martin is a research officer with Industrial Relations Review and Report.

THE ARTS

Architecture/Colin Amery

Eclecticism—alive and well in Baku

Cryptic instructions left in a sealed box for his successors by the late Pope John XXIII read: "Look to the East." The same message applies to anyone interested in the development of the history of architecture and, indeed, the history of taste. Eastern Europe holds so many secrets for those of us in the West whose experience is limited to the package tour or the brief escorted journey. There also are many lessons for practising architects and those interested in the restoration of historic monuments.

A remarkable exhibition has found its way to the Heinz Gallery of the Royal Institute of British Architects, on the unlikely subject of the *Architecture of Baku, Fabled Capital of the Caspian* (RIBA Heinz Gallery, 21, Portman Square, London W1, until April 20). The subject is unlikely only because of our somewhat prejudiced view of Baku as the city of oil wells and refineries — it is a surprise to discover an unwritten chapter of Russian architectural history opening in London.

The show is an example of Anglo-Soviet cultural co-operation which, it is hoped, will be the first of many in the architectural field. Robert Chenciner has selected the exhibits, his enthusiasm for the city of Baku having been generated by frequent visits to examine the carpets of the region: the immovable artefacts soon caught his imagination.

At the centre of Baku is an invincible tower on sixth-century foundations which was given additions in the 12th century to house a 250-man garrison on eight floors. The city has grown on the shores of the Caspian until today it has a population of 1.7m, one of the 10 largest cities of the USSR. Architecturally, it is a mixture of Islamic monuments and a remarkable range of buildings from the middle of the 19th century until the present.

It was in the 1860s that Baku was transformed by the oil boom. It became a Western-style capitalist city almost overnight. In 1856 the population was 8,000; by 1907 it was 248,000. With the oil profits the city built an opera house, town hall, company headquarters and many glorious villas and private houses.

Baku was a paradise for architects until World War I. The city grew on a generous square grid with parks and gardens, and the sea front and harbour were replanned by a German architect. Eclecticism seems to have been the only unifying quality of the architecture and houses grew in Gothic, Renaissance, Islamic, neo-Classical and Viennese styles. Foreign architects came to enrich the city and to take their inspiration from surrounding Islamic sources. After Lenin had nationalised the oil, the conditions of the oil workers improved and Constructivist houses and flats grew on the Moscow model.

One architect who dominated the development of Baku since the 1930s is the Academician, Mikael Useinov. Useinov has built more than 120 schemes in the city and he has created a school of Azerbaidzhani architecture. The characteristics of this style are a refined sense of decoration and form that is based on local Islamic styles but transformed — sometimes into a unique sort of Art Deco in the Soviet style.

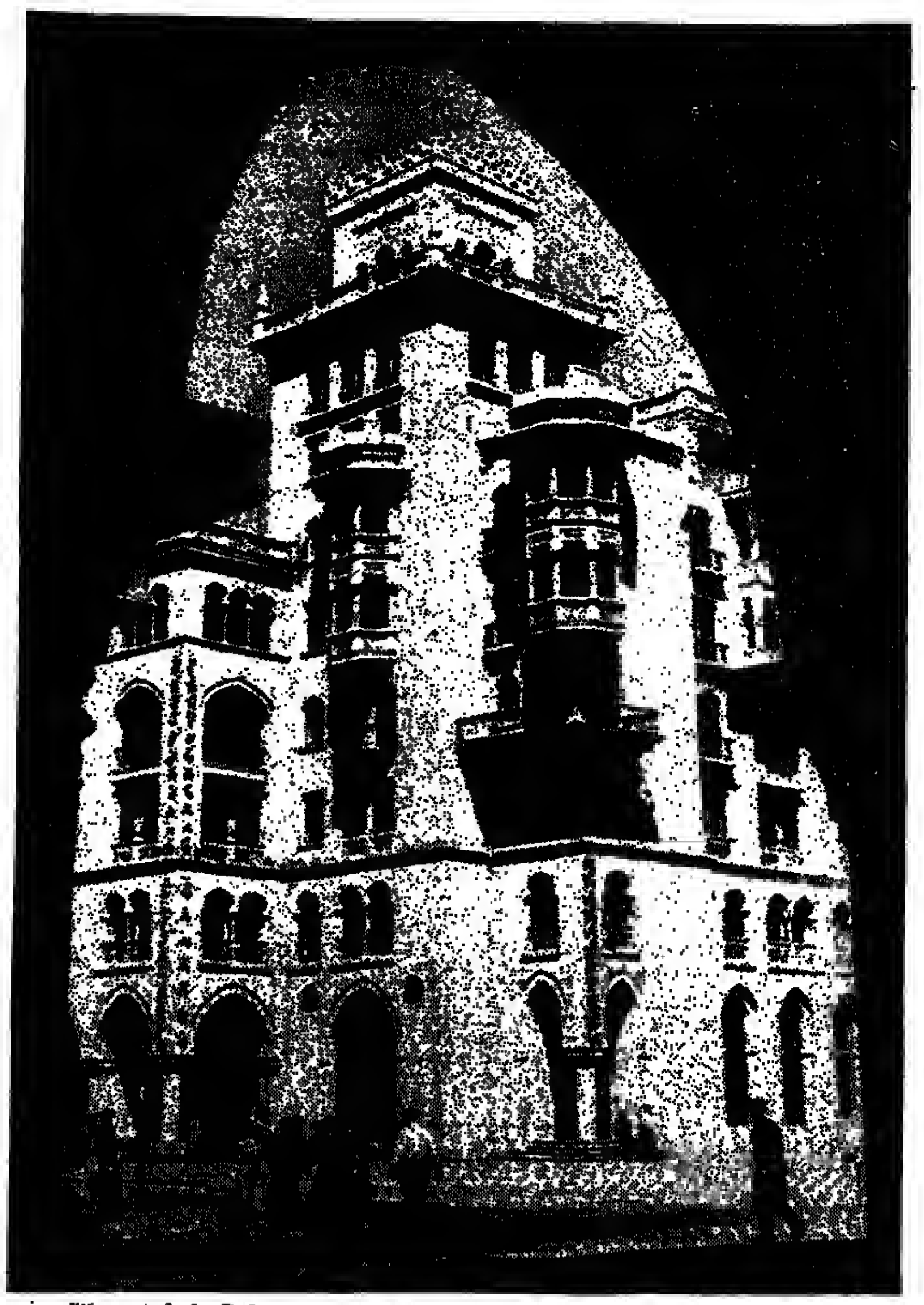
One quite amazing (to Western eyes) scheme is the underground railway with stations by Mikael Useinov completed as recently as 1970. The Narimanov station shown in the exhibition is in the neo-Egyptian style.

Double rows of fluted columns process along the marble platforms. They are encased in lacquered aluminium and blossom into the Luxor type of capital. As every Soviet city with more than 1m people is entitled to a metro system, there must be plenty of money to spend on the architecture. How wise the Soviets are in use the best materials on these large public projects. London Transport now seems to be intent upon covering every pleasingly tiled station with plastic Formica that will look terrible in a few years time.

Baku is fortunate in having a supply of local sandstone and salt winds make it impossible to use stucco for decoration. A tradition of stone carving continues. In the exhibition there is material about the Islamic architecture of the pre-oil boom years; but it has to be said that the 19th and 20th centures are the most exciting periods. Merchants of considerable wealth often built offices or houses using the services of creative civil engineers. The headquarters of one large company was blown up in 1919, but was rebuilt soon afterwards in a mixture of Gothic and Islamic styles. If you take the train for Tiblisi from Baku, you depart from the late-19th century station built in the Cairo style with rich interiors.

If you prefer to travel from the Electric Railway Station on Lenin Avenue, you may find it difficult to be entirely certain about matters of architectural style. Moulded concrete is much used for decorative purposes — a good material scarcely used in this country. The Government House by architects Rudnev and Munz, which was only completed in 1954, looks like a huge Venetian Palace or, in fact, a bit like parts of the British Foreign Office.

This is in some ways an incomplete exhibition because you do not feel you have a total view of Baku. There is seldom a glimpse of the oil refineries or the large blocks of workers' housing. But it does demonstrate that the variety of living traditions is much wider in the Soviet Union than in the West. The languages of the past have been successfully adapted for the present and no one can doubt that eclecticism is alive and well and living in Baku.



War work in Baku must have included quarrying and stone carving—this block of flats was completed in 1945

The Golden Age/Opera House, Dusseldorf

Clement Crisp

The Shostakovich Festival, which has run for the past six months in Duisburg and its neighbouring cities, reached a rousing finale last week with the appearence of the Bolshoy Ballet and orchestra performing Yury Grigorovich's staging of *The Golden Age*. Originally produced in Leningrad in 1930, *The Golden Age* was cursed with a scenario which had been the fruit of a competition to find balletic libretti relevant to the ideals of the Soviet state. The resultant farrago, staged by four choreographers in collaboration, was replete with political clichés about an exhibition (the eponymous and ironic Golden Age) in a capitalist city where a Soviet football team, despite fascist machinations, inspired the local workers to join in hymning the joys of labour.

Both ideology and staging were found wanting, and the piece was abandoned after one season. The only loss was Shostakovich's score, the first of three — the others being Bolt and *Bright Stream*—which the composer made between 1930 and 1935 before the traumatic production of *The Lady Macbeth of Mtsensk* inhibited his further lyric creativity.

In 1982 Yury Grigorovich took up the score, and with the help of a Moscow colleague devised a new scenario which has enabled him to bring this vivid music—somewhat edited—back to the theatre, in a production ablaze with physical energy. The music, with its elements of parody and commentary upon popular tunes of the period—*Tea for Two* provides a luscious beginning to the second act—dictates certain dramatic incidents, but Grigorovich has found a way of encompassing these without lapsing into the banalities of the original narrative. Once again he treats of Russian history, as he did in *Ivan the Terrible*; now he has set the ballet in the early 1920s at a time when the New Economic Policy admitted of a certain amount of private enterprise in the Soviet state.

We are shown a group of ardent young socialist workers in a fishing port, whose leader, Boris, falls in love with Rita, a cabaret dancer in "The Golden Age" restaurant which is a rendezvous for profiteers and assorted bourgeois backsliders addicted to the black-market and tangos.

The love between Boris and Rita is complicated in that Rita is also loved by Yashka, her dancing partner and leader of a gang of profiteers and robbers, and he in turn is loved by Luska, a good-time girl. This tangled love story, and the conflict between the life-style of the black-garbed Yashka and that of the heroic white-clad Boris, between the foxtrots of an anti-social economy and the revolutionary ardour of Boris and his Agit Brigade, provide the dramatic momentum which Grigorovich maintains with a drive that matches the power of Shostakovich's music.

But beneath what might seem a politically blatant narrative there is a far more engrossing sub-text about Russian life and art in an extraordinary period. Grigorovich has, in effect, devised a piece of time-travel which explores the aspirations of Soviet society in its early, heady days when revolution had inspired young people with an infectious idealism. In this he is much helped by the veteran stage designer Simon Virsaladze, who has interpreted in dazzling fashion the decorative manner he must have known as a young man.

His décors speak of the work of Kustodiev, Popova, Exter, Lissitsky, and the poster art of the 1920s. The brilliant orange-reds of banners and costumes, the parti-coloured clothes, the lettering on the sets (I deciphered the word *Shimmy* on a panel in the Golden Age cabaret scenes) tell of a world evoked with unerring rightness — and this is no less true of Grigorovich's choreography.

The sweeping energies with which he presents the membera of the fishing community as workers or gymnasts, the quick view of Proletkult theatre where church, army and business are caricatured, are to be set against a no less convincing treatment of the revellers in "The Golden Age" where social dances are cleverly balleticised, and the ravishing Bolshoy girls would put any Western musical to shame by their charm and panache in displaying some very chic costumes.

It may seem unjust to speak of emotional peaks in a work whose every scene has a sustained physical excitement, but the love duets between Boris (Irek Mukhamedov) and Rita (Natalya Bessmertnova) seem to me to be among the very best things that Grigorovich has created, and they greatly moved me in the two performances I saw last week in Dusseldorf. Two of these pas de deux are set to interpolated music—the adagios from the first and second piano concertos—and their aptness and dramatic sensitivity in recording both the love of two young people and the implicit battle in rescuing Rita from her cabaret life, combine lyricism with what I must describe as moral integrity in masterly fashion.

Bessmertnova, in the plenitude of her radiant gifts, is a very great dancer, her range further illuminated here by two adagio numbers she performs with adorable physical wit in the cabaret scenes. In 1930 the leading male role was taken by *Vakhtang Chabukiani*, and his interpretation helped to establish the new image of the Soviet danseur as heroic virtuoso. The young Irek Mukhamedov is his worthy successor. He brings exceptional sincerity to the ideological implication of his role, and his dancing—massive in prowess, with immense, space-greedy jumps which Grigorovich embellishes with innovatory positions that Mukhamedov assumes with prodigious ease—is never coarse.

As the villainous Yashka, Gediminas Taranda, also young, uses a brilliant technique to create a charming, passionate scoundrel, and both Tatyana Golikova and Maria Bylova were sensually elegant as the tragic Luska whom he kills.

The Bolshoy cast look youthful, and there is in their performance that full-blooded commitment, that academic strength of training, which so excited us in the first Moscow Ballet seasons in the West. Sustaining every moment is the Bolshoy orchestra under Yury Simonov, showing off the score with a clarity, an appreciation of musical and dramatic values, undreamed of in Western performance. And for Yury Grigorovich this newest creation reaffirms the force of his movement language, and his command of dramatic spectacle on the through-danced terms which are his vital contribution to the development of Soviet ballet.

Fidelio/Coliseum

Andrew Clements

English National Opera's staging of *Fidelio*, produced by Joachim Herz and first seen in 1980, returned to the Coliseum on Friday. When it was new it generated a good deal of hostility, and in some quarters was used as a pretext for a general attack on the current fashion in British opera houses for hiring East German directors to revamp repertory works. This, though, is by no means an aggressively radical production; neither is it a particularly successful one. It's strengths remain in the singing and acting of its principals and, in this revival, in the vigorous and committed contribution of the chorus.

The first Act contains most of the problems — the simple ugliness of the set, the clanking footsteps which accompany every exit and entrance, the awkward placing of supernumeraries; above all the failure of the production to use its bunker-like protuberances to any revealing dramatic point. The second is better: there is a perfectly acceptable dungeon, and in any case the final scene would require really crass handling to deprive it of its effect. One's disappointment is that *Fidelio* almost more than any other great opera would genuinely be susceptible to an imaginative translation of its time and place. The reasonances are there to be invoked, and Herz has laid a perfunctory gloss upon a thoroughly traditional framework.

Josephine Barstow is again the memoreble Leonore: she did not appear to be in especially good voice, but the passion, the exact marrying of gesture to dramatic situation remain enormously affecting. She is partnered here by Rowland Sidwell, new to the role of Florestan at the Coliseum; he sings with generous helpings of full-bodied tone and shows only occasional moments of strain; he often matches Miss Barstow in the generous swathes of emotion he is able to invoke.

Dennis Wicks's likable, straightforward Rocco, Alan Woodrow's Jacquino, and Malcolm Donnelly's demon-king Pizarro are familiar from previous runs. There is a new Marzelline, Jane Leslie MacKenzie making her ENO debut and singing elegantly if a little plainly to give a wholesome portrayal, while Rodney Macann takes over as a suave Don Fernando.

Mark Elder conducts: He obtains first-rate playing from the orchestra and more especially vivid choral singing, which lifts the Prisoners' Chorus out of an otherwise mundane First Act, and crowns the finale most conclusively. A revival to be seen for some of its parts, then, rather than for the sum of them all.

Bath Festival 1985

The Bath Festival this year will run from May 24 to June 9, and its fifth Contemporary Art Fair from May 24-27.

The tercentenaries of Bach, Handel and Scarlatti will be celebrated with e performance of Bach's *St Matthew Passion* in Wells Cathedral, Kent Opera's production of Handel's opera *Agrippina* in the Theatre Royal, and Scarlatti's *Stabat Moter* performed in Bath Abbey by the Monteverdi Choir and English Baroque Soloists.

Sir Michael Tippett, in his 80th birthday year, will conduct somo of his own works and othar participants in the featival include Radu Lupu, Christopher Hogwood, Robert Tear, Joshua Rifkin, and Georgo Melly.

Nelly Miricioiu/Goldsmiths' Hall, EC2

Max Loppert

The Romanian singer has already delighted London opera audiences with her Manon and Tosca for the visiting Scottish Opera, her Nedda at Covent Garden, and her Violetta at the Coliseum; but Thursday's song recital for the City Music Society (at Goldsmiths' Hall, EC2), with Geoffrey Parsons the pianist, was her first in this city.

To my mind, Miss Miricioiu demands placing at the front of the world's young Italianate sopranos. Her voice is quick in attack and projected with exceptional freedom across a wide range (the top, easy and brilliant, carries a special thrill); the fast vibrato, which forms an essential part of the attraction, can be modified with considerable technical skill. It is a voice that commands a palette of dramatic, emotional colours simply unknown to most of today's pallid tweeters. Just as sound, it strikes an immediate response—and, amid the deadly ornate splendours of the hall, the sound rang out wonderfully well.

But in the recital hall, as distinct from the opera house, Miss Miricioiu's art is apparently in early infancy. She sang a very attractive programme entirely from behind a music stand, in a way to pose a barrier between herself and the audience — the opening Wolf-Ferrari songs and a later Strauss couple seemed to be sung only to the stand. The scaling of a steady outpouring like Liszt's "*Oh! quand je dors*" is as yet beyond her; the lines were broken with too many breaths, and though there were phrases with the glow of starshine, strict sense proved elusive.

When Miss Miricioiu further essayed singing in French — three songs by Fauré completed the first half, four by Duparc the second — the lack of nuance (and accurate vowel-sounds) in the verbal enunciation meant that the listener was forced to rely on purely vocal characterisation; and while the ease of a young soprano sweeping to the climax of "Notre amour" (in the proper high key) affords a basic pleasure, far greater specificity was needed for Fauré's and Duparc's more intricate poetic expressions. The most secure interpretation came later, with four Romanian songs and Proch's bravura variations on an Italian song; and when, for a single moment, Miss Miricioiu was finally able to dispense with the music, the sense of new freedom gained was a revelation. There's much work to be done. Let us hope this singer finds the disciplina to do it, for the voice itself is glorious.

Music Projects/Almeida

Andrew Clements

The second of Music Projects' French programme last week focused on music of Tristan Murail. The sequence of three short solo pieces on Thursday gave a less vivid impression of his creative personality than one has gained from the couple of larger-scale works played in London by the BBC Symphony Orchestra. Of the three only *Le conquête de l'Antarctique* for ondes Martenot (played by the composer) made a substantial impression.

C'est un jardin secret for viola really required more assured presentation to bring off its wispy writing, but in *Tellur* for guitar David Harvey managed its flamenco effects with some panache; the problem here was a lack of distinctive material, though again the plan of the pieco was clearly laid out. One ensemble pieca from Murail would have been welcome, but Richard Bernas generally husbands his rehearsals well, preferring to devote what time he has to thorough preparation of a couple of larger-scale works and to bulk out his programme with solos.

Certainly Xenakis's *Phlegra*, which closed the concert had been cerefully approached. The performance was cooler than one remembers from the premiere with the London Sinfonietta on years ago, but still splendidly bracing as twisting contrapuntal lines and unexpected unisons crowded in on one another. Xenakis's control of instrumental writing made a welcome change after Michael Levinas's *Appels*: here the use of wind instruments playing into snare drums to charge the sound with sympathetic resonances gave the work a charmless clangour which its repetitive atructure did nothing to assist.

Saleroom/Antony Thorncroft

Danish art in London

Collectors of the art and artefacts of the 19th century will be gathering in London this week for a series of auctions devoted to their period. Since both Sotheby's and Christie's decided to merge their Victorian paintings sales into larger auctions, dominated by pictures of Continental contemporaries, this sector has seemed rather diminished and the catalogues a jumble of contrasting art styles.

For example, the three most important paintings in Christie's salo on Friday are by very different artists — the Frenchman Francois Millet, the High Victorian Lord Leighton, and the Danish artist Vilhelm Hammershoi.

The Millet, a landscape, should sell for £200,000; while Lord Leighton's "Greek girl dancing" was known only from sketches until it turned up recently in the U.S. with its owner unaware of its importance. Bids in the region of £150,000 are expected. Danish art came to the fore in public interest, and in price, following the National Gallery's exhibition last year of works from its Golden Age early in the 19th century. Hammershoi worked later: but his mysterious interior painting of 1900, reminiscent of a 17th-century Dutch interior, could set a record price for a Danish painting.

Sotheby's sale on Wednesday and Thursday also contains many works by Danish artists, including Eckersberg, Fischer and Bruningsen, but the firm's decorative arts sale (on Thursday and Friday) has the most interesting items. A pair of Venetian chandeliers in Murano polychrome glass carry an estimate of £20,000, while a Renaissance-style jewelled Milanese cabinet, made in 1880 by Deniele Lovati, could go for £25,000.

Christie's has two sales that should interest English collectors—pottery and porcelain on Monday, and watercolours on Tuesday. In the earlier sale, all the main English factories will be represented, with especially interesting items from Worcester, Rockingham, Longton Hall and Chelsea including a Red Anchor figure of an ostler which is the only recorded example. It carries a top estimate of £6,000.

All the major names are included in the watercolour sale, with a Turner view of "Ingleborough from Hornby Castle" expected to make the top price of around £50,000. In 1881, Christie's sold it for 2,200 guineas — a massive price for the time. There is a good range of works by de Wint, and Rowlandson, William Blake, Cotman, and Richard Dadd also are represented in a sale with estimates ranging upwards from £200.

Arts Guide

March 15–21

Music

TOKYO

Philharmonia Orchestra of London conducted by Neville Marriner. Respighi, Mendelssohn, Dvorak. Showa Women's College, Hitomi Memorial Hall. (Mon) (403 8011)

Japan Philharmonic Symphony Orchestra conductor: Ken-ichiro Kobayashi; piano: Ikuyo Kamiya. Wagner, Mozart, Bartok. Tokyo Bunka Kaikan (Tue) (234 5911).

Aurele Nicolet (flute) with Kolja Blacher, violin; Mari Fujiwara, cello; Michio Kobayashi, harpsicord. All-Bach programme as part of Bach festival. Kan-i Hoken Hall (Wed). (501 5638-9)

NEW YORK

Carnegie Hall: Orchestre de Paris: Daniel Barenboim conducting: All-Bruckner programme (Mon), All-Ravel programme (Tue); Aroutiun Papazian piano recital: All-Chopin programme; Rosalyn Tureck piano recital: All-Bach programme (Thur). (247 7459)

CHICAGO

Chicago Symphony (Orchestra Hall): Carlos Kleiber conducting: All-Brahms programme (Thur). (435 6122).

WASHINGTON

Terrace (Kennedy Center): Abel Carlevaro guitar recital: Villa-Lobos, Carlevaro, Torrova, Canlevaro, Albeniz (Tue). (254 9895)

Concert Hall (Kennedy Center): Choral Arts Society: Norman Scribner music director: All-Bach programme (Wed). (254 3776).

VIENNA

Tonkunstler Chamber Orchestra, conductor and soloist Bijan Khadem-Missagh and Rudolf Scholz, organ. Handel, Joseph Haydn. Musikverein Brahms Saal (Mon).

Michael Haydn Chamber Orchestra conducted by Christian Simonis with Thomas Riebl, viola, Thomas-Daniel Schlee, organ, Neva Rae Powers, soprano, Petra Weber-Schuwerack, alto, Peter Jelosits, tenor, and Frank Kubik, bass. Joseph and Michael Haydn, Boog, Preindl. at St. Michael church. (Tue).

Vienna Symphony Orchestra conducted by Juri Ahronowitsch with Heinrich Schiff, cello. Franck, Prokofiev and Respighi. Musikverein. (Wed and Thur).

LONDON

Daniel Blumenthal, piano. Beethoven, Weber, Liszt and others. Queen Elizabeth Hall (Tue) (928 3191).

Royal Philharmonic Orchestra and Pro Musica Chorus of London conducted by Norbert Balatsch with Sheila Armstrong, soprano, James Bowman, counter-tenor, Stephen Roberts, baritone, and Sir Trevor Holdsworth, piano. Grieg and Orff. Royal Festival Hall (Wed)

Imogen Cooper, piano. Schubert. Wigmore Hall (Wed). (935 2141).

Igor Oistrakh, Violin and Natalia Zertsalova, piano. Bach, Beethoven and Paganini. Queen Elizabeth Hall (Wed).

London Philharmonic Orchestra conducted by James Conlon with Boris Christoff, bass. Glinka, Mussorgsky, Prokofiev, Rachmaninov. Royal Festival Hall (Thur).

Bach 300 Festival: London Bach Society and Steinitz Bach Players conducted by Paul Steinitz with soloists. Bach programme to mark the 300th anniversary of the composer's birth. Queen Elizabeth Hall (Thur).

London Early Music Group: Purcell, Stradella, Cavalli, Monteverdi and others. Wigmore Hall (Thur).

Ronnie Scott's, Frith Street: G.B.-Blues Company featuring Root Jackson (439 0747).

PARIS

Paul Tortelier, cello recital: Bach Suites (Mon), Salle Gaveau (563 2030)

I musici: Manfredini, J. C. Bach, Locatelli, Martin (Mon). TMP-Châtelet (233 4444).

Ensemble Orchestral de Paris conducted by Gianfranco Rivoli, Ruggiero Ricci, violin, Alexandra Papadjiakou, mezzo: Mendelssohn, Falla (Tue). Salle Pleyel (561 0630).

Orchestre National de France conducted by Jeffrey Tate with Radio France choir: Don Giovanni (Wed). Théâtre des Champs Elysées (723 4777).

Alban Berg and his time: chamber music by Webern, Schönberg with Liliane Mazeron, soprano. (Tue). Opera Comique (296 0611).

Orchestre de Paris Chœur, A Capella conducted by Arthur Oldham: Bruckner, Liszt (Wed, Thur). Salle Pleyel (561 0630).

Peter Serkin, piano (8pm), Paul Tortelier, cello (10.30pm) Both concerts Thur, Salle Gaveau (563 2030).

FINANCIAL TIMES

BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

Monday March 18 1985

A flawed embargo

NIKITA KHRUSCHEV is said to have provided the *reductio ad absurdum* case against economic sanctions when he chided the West for selling buttons to the Soviet Union that could be used to hold up Russian soldiers' trousers.

Mr Gorbachev would doubtless say the same about many of the items on the secret list of goods of potential strategic value recently re-drawn by the Co-ordinating Committee (CoCom) comprising most Nato countries and Japan.

So long as the Soviet bloc is regarded as a threat, the sale of advanced technology designed for civilian use but adaptable for military purposes will have to be vetted. The buttons-for-trousers argument will always be with us: but today it is becoming less of a joke because of the rate of technological development and the speed and ease with which know-how spreads.

Intensive exercise

The U.S. with Pentagon hard-liners enforcing ever-tighter control over export licensing, has mounted an intensive administrative exercise to stop the flow. It has put pressure on its allies in CoCom and on neutral governments like Austria and Finland, suspected of channelling embargoed goods to the East. In particular, it has asserted its right to apply U.S. export law to overseas subsidiaries of American companies and to any foreign company using U.S. technology.

There has been a corresponding upsurge of protest from businessmen, scientists and politicians in the U.S. as well as in Europe who see the controls as exaggerated, costly and counterproductive. The extra-territorial application of U.S. law is also much resented.

Some recognition of an imbalance between strategic and commercial considerations is implied in the U.S. Department of Commerce's proposal three days ago to relax some of the rules. Under the new proposals companies would be allowed to ship goods on the U.S. list of restricted exports if they could prove that the Soviet bloc can buy the same goods elsewhere.

U.S. manufacturers have watched with dismay as European and Japanese companies reap the benefits of successive American embargoes in protest at the Soviet Union's human rights record, the invasion of Afghanistan and the imposition of martial law in Poland. The USSR is now consciously directing a number of large turnkey projects towards British, Italian and Japanese contractors.

The U.S. Commerce Department has been at pains to demonstrate that it is not soft on the strategic question; but if its proposal is adopted it will be the first sign for several years that the Pentagon analysis is being challenged from within.

A concerted European appraisal of the CoCom system and of the impact of U.S. controls on Western companies dependent on American technology is expected in June. A draft opinion by one committee of Euro-MPs, still being discussed, suggests there will be hard words. The draft accuses the U.S. of using the strategic argument to protect its own technological dominance "under the cover of secrecy and in the guise of foreign policy."

A report commissioned by the Organisation for Economic Co-operation and Development in Paris, which was allegedly refused publication at the insistence of the U.S., goes even further, and probably too far. It claims the licensing system is motivated by U.S. fears of slipping behind Europe and Japan, that its attempt to license the transfer of knowledge is an ultimately hopeless venture *leading to administrative absurdities*, and that the Soviet Union gains far less than supposed from its "reverse engineering" of illicity-acquired Western hardware.

The report, by a University of Queensland economics researcher, is too polemical; but it shares the commonly-held conclusion that the present system does more damage to America's allies than it does to the Soviet military machine.

Every government has the right to say what may and may not be sold abroad, but it cannot hope either in law or in practice to supervise the movement of goods once they have left its shores. The U.S. at present delegates allied governments too little responsibility apparently because it does not trust them.

Contentious requests

CoCom should not be disbanded, but its small secretariat in the American embassy in Paris cannot—and should not have to—pass judgment on any but the most contentious requests lodged by exporters with their governments. Governments can streamline their own vetting process by allowing manufacturers—as the Department of Commerce now proposes—to argue their case with civil servants to help them assess whether their products pose a security risk.

As part of the Western world's trading system, the U.S. has to accept that its professed aim of removing distortions to free trade in high-technology products inevitably implies that some valuable knowledge will end up in the wrong hands. There is bound to be a compromise between unimpeded commerical flows and a watertight system of strategic controls. The present balance looks wrong.

Foreign bidders are welcome

MR NORMAN TEBBIT, Britain's Trade and Industry Secretary, was right not to refer to the Monopolies Commission the bid by the Egyptian Al-Fayed brothers for House of Fraser. The decision is in line with his intention, announced last year, to confine merger references as far as possible to cases which threaten to reduce competition; questions about the suitability of a particular individual or company to acquire particolar assets would be given less weight in the merger vetting process.

This is a welcome shift of empbesis, even though it involves rough justice for Lonrho. Its original bid for House of Fraser came at e time when the "suitability" issue was in vogue. The fact that the latest commission report, unlike the 1981 inquiry, could find no detriment to the public interest arising from its ownership of House of Fraser adds salt to Lonrho's wounds. But the serious point in the affair is not so much Lonrho's discomfiture as the weaknesses which it reveals in merger policy.

Weaknesses

There is to much ministerial discretiou and the criteria under which the commission operates are too vague. These weaknesses will continue as long as ministers insist on retaining the power under the Fair Trading Act to refer mergers for reasons other than their impact on competition.

Some argue that these powers are needed to prevent undesirable foreign takeovers of important British companies. The commission has been used for this purpose in the past; for example, the bid by Enserch of the U.S. for Davy was rejected by the commission in 1981, partly on the grounds that it would damage Davy's role as a project leader for Britisb industry.

Even if the commission's arguments in the Davy case are regarded as valid, it is questionable whether the Fair Trading Act should be used in this way. The commission's expertise is, or should be, to do with competition.

Under the Industry Act of 1975 the Government can prohibit the change of control of "important manufacturing undertakings" to non-residents if such a change would be "contrary to the interests of the United Kingdom or of any substantial part of the United Kingdom". It might be better to use this power, rather than the Fair Trading Act, on those *extremely rare occasions when* foreign ownership represents a genuine threat to the national interest. *There might* even be a case for extending the provision to cover services as well as manufacturing.

Unsatisfactory

The Government is understandably reluctant to strengthen the Act in this way, for fear of sending the wrong signals to potential foreign investors. Yet, the Fair Trading Act procedures are unsatisfactory; they make it too easy for ministers, faced with political pressure, to duck out of the responsibility and band awkward problems to the commission.

In general, foreign bidders should be subject to the same rules as domestic ones—and those rules should be as clear as possible. To erect a protective screen around companies regarded as national jewels would deter foreign investors and deprive the country of access to fresh capital and management skills. Moreover, British companies want to be free to make acquisitions overseas; their interest is in relaxing the curbs on inward investment which exists elsewhere, not in creating new barriers at home.

U.S. Savings Banks

The day the doors stayed shut

by William Hall in New York and Paul Taylor in Cincinnati

"ON MARCH 3 banking operations in the United States ceased. To review at this time the cause of this failure of our banking system is unnecessary. Suffice it to say that the Government has been compelled to step in for the protection of depositors and the business of the nation." President Roosevelt, March 1933.

NOT since the Great Depression of the 1930s have ordinary Americans experienced the financial panic which gripped the conservative citizens of Cincinnati last week as they queued all night in some cases to withdraw their life savings from local savings banks.

At 7.30 am on Friday morning, Ohio Governor Richard Celeste assured himself of a place in the history books by announcing that in view of the severe and spreading lack of confidence, "he was ordering a three-day bank holiday" for the 71 local savings banks insured by the Ohio Deposit Guarantee Fund. *Nothing like this* has happened in the U.S. since President Franklin D. Roosevelt declared a nationwide Bank Holiday in 1933. It restored confidence but 4,000 banks never re-opened.

Governor Celeste's emergency action has sent fresh tremors through a nervous U.S. financial system which, less than a year ago, was rocked by the run on Continental Illinois, the eighth biggest U.S. bank. On that occasion small depositors remained blissfully unaffected by the crisis of confidence which swirled around Chicago's premier bank. But this time more than half a million small savers woke up to find the doors of their neighbourhood savings banks padlocked.

For the first time the ordinary American bank depositor has been given a taste of the sorts of dangers lying ahead as the U.S. deregulates its financial system. In so doing it has also exposed the fragility of public confidence in the nation's 3,300 savings banks and reminded the regulators once again of the ease with which the unexpected collapse of a tiny financial institution can rock the whole system. However irrational it might seem there were distinct signs of a flight to "quality" in the U.S. financial markets on Friday as the dollar came under pressure. Short-term Treasury bill rates plummeted while rates on bank Certificates of Deposit rose.

U.S. banking regulators have been anxious to play down last week's financial panic in Ohio, depicting it as a special case. Unlike the vast majority of U.S. savings banks, the 71 Ohio institutions which shut their doors on Friday, and which have assets of close to $5bn, were not members of the Federal Deposit Insurance Programme and hence did not have the backing of the "full faith and credit" of the U.S. Government. So far, the run on deposits has not spread to the 170 Federally insured savings banks in Ohio nor the local commercial banks, all of which remain open for business.

Nevertheless, U.S. savings bank regulators have been made uncomfortably aware that public confidence in the country's savings banks cannot be taken for granted. The U.S. thrift industry is far from healthy due to a combination of high interest rates and loans which turned sour and very dependent on the continued loyalty of its more than 100m small customers.

Over 1,000 U.S. savings banks are still losing money and even the industry's regulators admit that if you strip out the special accounting treatment which allows many savings banks to disguise the weak spots in their balance sheets, the industry as a whole probably has no net tangible worth to support its $1 trillion (million million) of assets. The strains are showing.

In California, America's biggest savings bank, which is owned by Financial Corporation of America, recently estimated that it had lost between $500m and $700m in 1984, and has been forced to increase sharply the interest rates it is paying to prevent depositors deserting to a safer institution.

On the other side of the Continent, U.S. regulators have been working overtime nursing the Bowery Savings Bank and three other leading New York City savings banks which lost around $180m last year. They have long since exhausted their true capital base and the regulators' rescue plans could be upset if small depositors were to take fright as happened in Ohio last week.

The run on Ohio's state chartered savings banks began after Home State Savings, which did not even rank amongst the top 100 U.S. Thrift Institutions, shut its doors just over a week ago. Home State is estimated to have lost $150m from the collapse earlier this month of ESM Government Securities, a little known bond trader based in Fort Lauderdale, Florida. Once it became clear that there was not enough money in the local insurance fund to cover the losses, savers in many of Ohio's smaller savings banks panicked and the run spread like wildfire.

ESM is the fifth U.S. Government bond dealer to fail in the last three years and several U.S. officials now believe that its losses will exceed those of Drysdale Government Securities. Drysdale's collapse in 1982 severely shook the U.S. financial community.

Formed in 1976 by three bond dealers, Messrs Ewton, Eneca and Mead (hence the initials ESM), its basic business differed little from that of the hundreds of other second-tier dealers in the mushrooming Government securities market where daily turnover frequently exceeds $75bn.

The firm specialised in complex trading strategies known as "repurchase agreements," which are similar to short-term loans. In a typical deal a customer such as a savings bank would use its surplus cash to buy a "packet" of securities, which ESM would agree to buy back at a future date. ESM would get the cash and the savings bank got the securities as collateral with the repurchase price set high enough to provide the savings bank with a return on its investment.

When ESM failed, Mr Thomas Tew, the court appointed receiver, discovered that ESM had borrowed $1.6bn in securities for itself and its customers and lent out $1.3bn. That immediately left a $300m shortfall.

Everything was fine for ESM as long as nobody looked too closely at its books, which was unlikely since it has always operated in a totally unregulated market. As long as its repurchase agreements kept enough cash coming in to meet its obligations when they fell due, ESM was able to keep its head above water. One U.S. Securities and Exchange Commission (SEC) investigator described ESM's actions as "similar to running in front of a tidal wave." When one of ESM's customers became nervous and started asking awkward questions, ESM capsized.

As the investigators began untangling the complex web of financial transactions, the name of Mr Marvin Warner, a 67-year-old Cincinnati financier and former Ambassador to Switzerland, kept surfacing. Mr Warner, a close friend of ex President Jimmy Carter and Ohio's present Governor, built an extensive financial empire in Ohio and Florida and at one time was said to be worth in excess of $100m.

He made his fortune in the post-war housing boom in the South and until his resignation last week could often be found landing his helicopter on the roof of the state office building in Columbus, Ohio, where he held court as Chairman of the Ohio Building Authority.

Mr Warner controlled two of ESM's biggest customers, Home State in Cincinnati and American Savings and Loan Association of Miami. American Savings, the second biggest savings bank in Miami, has not been forced to close like Home State and says that after maximum estimated losses of $55.3m, its net worth is still a fifth above the regulatory minimum.

While these two savings banks have paid dearly for their involvement in the collapse of a little known Government bond trader, their experience is a cautionary tale for the hundreds of other small U.S. savings banks which have become very big customers of firms like ESM. It underlines the very real risks facing the U.S. thrift institutions as they try to come to terms with the increasingly deregulated environment in which they must now operate.

U.S. savings banks are attracted to firms like ESM because they are under tremendous pressure to raise their profitability and find new sources of deposits. Last year the combined earnings of the industry fell by more than a third to around $1.3bn, which represents a return on assets of around 0.15 per cent and compares with a figure of around 0.8 per cent at the end of the 1970s. *The industry's key capital ratio* — regulatory net worth as a percentage of total assets *has slipped from over* 5½ per cent in the late 1970s to 3.88 per cent.

In 1981 and 1982 the U.S. savings bank industry lost over $8bn raising real fears that many giants would fail. In a bid to save them, the U.S. Congress loosened many of the regulations, enabling them to pay competitive rates of interest for their deposits and diversify into new areas to broaden their earnings base.

The growth into businesses far removed from housing finance is making industry regulators decidedly nervous. Mr Edwin Gray, chairman of the Federal Home Loan Bank Board, the industry's primary regulator, has been sounding increasingly alarmed about the enthusiasm for everything from windmill farms to fast food restaurants and airlines.

Last year the U.S. thrift industry grew by 20 per cent, roughly twice as fast as U.S. commercial banks, notwithstanding the fact that capital ratios are in far worse shape than those of the banks. Mr Gray has noted that annual growth rates of several hundred percentage points are no longer uncommon and if present growth rates continue 29 savings institutions would have grown into $50bn institutions in just four years' time.

"This situation differs dramatically from previous periods because with almost total deregulation of interest rates on deposits, growth can result almost entirely from the aggressive solicitation and deployment of funds, and very little else," says Mr Gray.

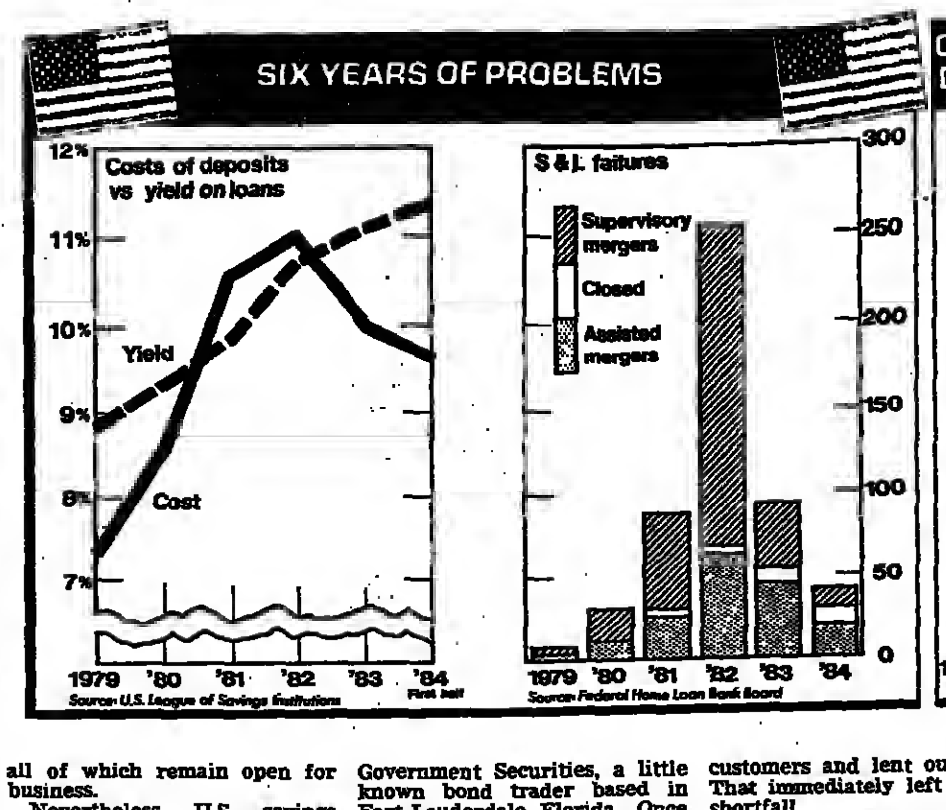
Mr Gray says that 80 per cent of his problem case load three years ago was attributable to interest-rate-spread problems and only 20 per cent to asset quality. Last year the ratio was almost completely the reverse problem. He estimates that the cost of resolving these cases will be four to five times higher than the cost of resolving the interest-rate mismatch problems.

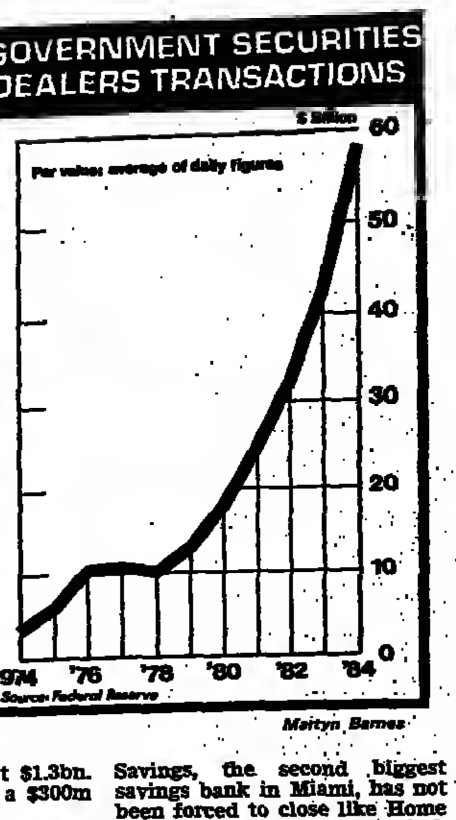
The rising cost is already taking its toll of the Federal Insurance Fund covering the industry's deposits. Despite the rapid growth in deposits the resources of the Federal Savings and Loan Insurance Corporation (FSLIC) have been declining. FSLIC reserves as a percentage of total deposits has recently dropped sharply from an average 1.2 per cent to 0.76 per cent at the end of 1984. There is growing pressure for the Federal authorities to recapitalise the insurance fund to maintain credibility.

For this reason U.S. Federal regulators are reluctant to deplete their resources further by offering to take the 71 Ohio state chartered savings banks under their wing. A preliminary investigation by the U.S. Federal Reserve has indicated that many of the Ohio Thrifts would not qualify for Federal deposit insurance because they are undercapitalised.

An alternative solution to Ohio's problems would be to arrange a takeover by an out-of-state commercial bank, anxious to get a foothold in a new market. Citibank, the most aggressive of the U.S. money centre banks in circumventing the barriers to interstate banking, has come to the rescue in the past.

It is too early to tell whether the run on Ohio's state chartered savings banks will spill over into other parts of the U.S. financial system. On balance it would be surprising if it did. Up to now the small depositor has not been harmed by the rapid deregulation of the U.S. financial services industry. But last week's events could inject a fresh element of instability into the U.S. financial system.





The ordinary U.S. depositor has had a taste of the dangers of deregulation

Men and Matters

Falklands in the air

Breaking with previous tradition, the Government has gone to the Royal Air Force for the next commander of the British forces on the Falklands. Air Commodore "Kip" Kemball, to be promoted to Air Vice-Marshal, takes up the post in August.

He has considerable experience in operational flying and the appointment suggests that the future emphasis of the garrison commander's job will be on aviation. The new Stanley airport, able to handle big jets, opens in May.

The main military threat to the islands, is seen as a wild hit-and-run raid by Argentine pilots. Perhaps it is only coincidence, but the eppointment comes only ten days after the Argentine military high command has been shaken up. For the first time an air force officer, Brigadier General Teodoro Waldner, heads the joint *chiefs* of staff. His personal view is thet the Argentinian nevy and *army let the air force down in* the Falklands conflict.

Higher spirits?

Drinkers and smokers probably have good reason to be nervous about the contents of the *Chancellor's Budget tomorrow.* A delicate balance between indirect and direct taxation—via liquor, and tobacco—has been part of the basic budgetry equation for the last 100 years.

In 1885 the Chancellor of the Exchequer of the day, Hugh C. E. Childers, was offered such alternatives as taxes on cats, soda weter, photograpbs, bicycles, and even names. But he stuck to tradition and raised the duties on spirits by 20 per cent and on beer by 9 per cent. He left wine duty undisturbed that year.

The Victoria Wine company which has been delving into the archives before tomorrow's *witching bour reports that even* in 1885 the increase on spirits caused "some dismay in the House."

Nigel Lawson has it in bis power to generate the same feeling 100 years later. Tax already accounts for around 85 per cent of the retail cost of a bottle of Scotch whisky.

Roth's House

This is the morning when MPs who have not subscribed to the latest section of Andrew Roth's Parliamentary Profiles will be lining up in front of one of the House. Of Commons library's eight chained-down copies in order to assess the likely damage, or advancement to their cereers, generated by the entries.

Roth, a veteran political writer and Parliament-watcber has cornered e special market with his Perilamentary Profile Services Limited, wbicb publisbes his books. His Profiles combines the wicked word pictures of his old MPs Chert witb the bard fects of his Business Beckground of members. Profiles contains, ou average, 750 close-packed words on each MP.

To take a typical entry: Geoffrey Rippon will probahly not object to Roth's reference to his chairmanship of twenty-two Britannia Group companies, or his £32,000 salary. And he is likely to appreciete the Roth assessment of him as a "shrewd, independent,, anti-monetarist, City tycoon-lawyer." He is less likely to appiaud the assessment from journalist Micbael White that he is a "Day Before Yesterday Man."

And unexpected aspects of Geoffrey Robinson, Labour's assistant spokesman on trade and industry emerge. Robinson is well-known as a former British Leyland man who headed their Jaguar operation, and before that, their Innocenti production in Milan.

Less well known is that be returned to England with an Italian wife, *Marie Elena*, an opera singer wbose leck of enthusiasm for his deviation from tycoonery into Labour politics was best illustrated by her crack, "I *don't* think I should follow hi mlike a little dog."

"Now the British want us to inclnle limitations on Milwall's away games."

Stern at the Fed

Appointments to the position of president of a regional federal reserve bank in the United Stetes are always watched with close attention by the Wall Street money men. The 12 regional "fed" presidents, in rotation, fill four of the slots on the key, monetary policy-making, open market committee of the "fed."

While the regional federal reserve banks may often defer to the "fed" board in Washington, when it comes to the crunch each, can enjoy its day *in the sun from time to time* in helping to decide in which direction the "fed" should be nudging interest rates.

The decision of the Minneapolis Fed that it is appointing Gary Stern its new president has caught "fed" watchers' eyes. He takes over from Gerald Corrigan, an intimate of the "fed" chairman, Paul Volcker. Corrigan became president of the most influential of all the "fed" regional banks, the New York Fed, at the beginning of the year.

Clearly it is no coincidence that Stern follows Corrigan. Stern was seven years at the New York Fed as an economist. Corrigan too worked there.

Stern is no ideas man with orthodox views on economics. He is certainly not an ideologue of the monetarist or supply side persuasion. He says of himself that he is much more methodical than Corrigan — who he has described in an interview, in a somewhat enigmatic *fashion*, "more inspirational."

All this is certainly reassuring to the "fed" chairman Volcker. His critics in Washington will no doubt accuse bim of *seeking to "pack"* the regional "feds" with former "fed" officials who are likely to be *sympathetic* with the bank's traditional approach to analysing the U.S. economy.

In Congress eyes will now turn to Jack Kemp, the "fed's" most outspoken critic on Canitol Hill, to see whether the Stern appointment leads him to step up his attack on the central bank.

Hard sell

A candidate for salesman of the year must be the vacuum cleaner representative who has been *convicted* of assualt in London, Ontario.

He began demonstrating e cleaner to a housewife in spite of her protesting she was not interested.

Husband returned home. A fight broke out. Husband came off worst witb ents and broken deotures.

The salesman told the court his hoss had told him "when someone says 'no' they really mean 'yes.'"

Observer

BRITISH SHIPBUILDERS

"AFTER THE euphoria," says Eric Mackie, the burly, fast-talking Ulsterman who runs the Govan shipyard on the Clyde, "the hard facts set in. Then it's put-up or shut-up time."

The yard was euphoric last month after winning a £40m order to build a passenger and freight ferry of cruise-type standards for North Sea routes. It has not built a big passenger ship since the mid-1950s.

In those days, when the industry was still in private hands, the yard (then called Fairfields) built the Empress of Britain for Canadian Pacific. The Clyde's very last big passenger ship was the mighty QE2, built in the late 1960s by John Brown.

Mr Mackie's "hard facts" are a reference to tha tremendous task that Govan, part of state-owned British Shipbuilders, now faces in building the ship. "This is our testing ground; we'll get our feet wet and our fingers burnt but we'll gain a lot of experience."

The order, placed by Peninsular and Oriental Steam Navigation (P & O) for the North Sea Feries company in which its partner is Nedlloyd of the Netherlands, is the latest in an unusual run of good news for BS.

New merchant ship business so far this year totals around £120m and nearly £300m worth of defence orders for two frigates have also been placed. Several other merchant orders are in the pipeline notably for Sunderland Shipbuilders, which hopes to receive a £45m order to build a crane-ship for a UK owner.

With BS's monumental losses now on the way down Mr Graham Day, the chairman, is picking up a £15,000 bonus for his first year to add to his £80,000 salary, the highest paid to the head of a nationalised company. He moved into the chair in September, 1983.

But despite the upturn in work and the fall in losses, attributable to a tough productivity drive and the sale or closure of the most obvious loss-makers, the group still has a hard ride ahead. Thus, the "hard facts" that Mr Mackie spoke of have much wider application for BS.

On the three fronts of heading off losses, selling warships and pulling in merchant orders, progress is being made. But jobs have suffered and more are being shed. This year alone, BS has announced it will have to make nearly 2,000 more redundant. It now employs only 10,000 people on the merchant side against 34,000 at the time of nationalisation in 1977 and 22,000 two years ago.

So while it may seem most of the news at BS is good, what is left of the corporation must now face one of its hardest tests—whether it can stand on its own feet with the minimum of subsidy.

Graham Day, BS chairman, and the Stena Seawell, built by Sunderland Shipbuilders for Stena of Sweden

At last a glimpse of Daylight

By Andrew Fisher, Shipping Correspondent

In the eight years since nationalisation, the industry has had £1.3bn in public dividend capital, Intervention Fund subsidies for new orders (£250m alone), and redundancy payments.

This was why Mr Norman Lamont, Industry Minister, stated so bluntly in a recent speech: "We are at the most critical juncture in the history of shipbuilding in the UK." Though willing to buy more time for the industry, "this Government is not prepared to maintain support without clear and unequivocal indications that the time that taxpayers' money so expensively buys is being put to the best possible use."

And it is to the Canadian-born Mr Day that the Government is looking for such signs. BS's latest merchant orders, including the ferry order which was won against European and Far Eastern competition, still need subsidies.

Thus, added Mr Lamont, "although the short-term future may have been secured, the long-term has yet to be grasped." The Government wants the EEC to allow, temporarily at least, higher subsidies for individual orders—granted to cut tha huge cost gap with Asia—so the industry can adjust more smoothly to the tough market.

Mr Day reckons the UK industry has done more than any other in western Europe to reduce capacity over the last 18 months in line with the market and to increase that capacity's effectiveness.

What the outspoken, black-bearded Mr Day has done at BS in his first 18 months in the chair is:

● Pushed through flexible working practices to break down demarcation lines and boost productivity. These were agreed early last year after some tough union opposition.

● Slimmed the group's size by closing three small merchant yards, selling most of the ship-repair activities, and retreating from the offshore rig sector, notably with the sale of the problem-ridden Scott Lithgow yard on the Clyde.

● Helped prepare for privatisation the warship yards. The largest are Yarrow, also on the Clyde, for which GEC and Trafalgar House (buyer of Scott Lithgow) bave bid around £30m, Vickers at Barrow-in-Furness, and Vosper Thornycroft in Southampton. Cammell Laird on Merseyside and Swan Hunter on the Tyne, which have also built merchant ships, will also be sold. They shared the frigate order.

Thus, in about a year's time, BS will consist of aeveral large and small merchant shipyards, groping their way out of the loss zone, though still needing ordar subsidies. Can they make it? "We are working towards break-even," says Mr Day. "It's the first psychological burdle."

He thinks it can be achieved "within the planning horizon." (BS's latest corporate plan runs to the 1987-88 financial year.) The group's losses bava gone through some wild gyrations. The last published trading loss was £161m in the financial year to March 31, 1984, a large chunk over oil rig contracts with Britoil and British Petroleum.

The year before that, losses had soared from £20m to £117m, with Scott Lithgow also the msin culprit. But in 1984-85, BS reckons losses shonld be only around £50m. In the new financial year about to atart, they should be lower.

Mr Day's attitude as BS chairman, with a close eye on market and financial realities, may be regarded by some, he admits, as "crassly commercial." Past views of running state concerns have tended to mix business aspects with those of public trustee and administrator—"a little bit above the commercial hurly-burly."

Under him, BS has stopped trying to compete with the rest of the world across the broad range of shipbuilding. It is content to leave tha big tanker, bulk cargo, and container vessels to the Japanese and South Koreans.

Instead, with less than 2 per cent of the world market, BS aims to offer a range of more specialised vessels such as offshore support ships, ferries, gas carriers, dredgers, oil product tankers, and multi-purpose cargo carriers.

It now takes a year or so of preparatory work and talks to land orders. "It's a long cycle, lumpy industry." But Mr Day is confident that BS will, in the 1984-85 financial year soon to end, achieva its merchant ship order inflow target of around 200,000 compensated gross tonnes.

This will be around double the previous year and reverse two years of decline. (The cgt measurement takes into account not just the weight and size of the ship, but also its work and time content.)

He is not expecting any recovery in the world industry. "It would be nice if the market picked up. But I'm not assuming any significant price or volume improvement in the short term." Thus he reckons, "the only way we're going to survive is by becoming proportionately better."

Over the last year or so, productivity at BS yards has risen by well over 10 per cent, reflecting both investment—BS has to date spent more than £15m on computer equipment as a design and manufacturing aid—and greater flexibility between shipyard trades as a result of last year's deal with tha unions.

Mr Mackie estimates that productivity at Govan, now employing 2,200 people, bas gone np some 25 per cent since be went there in 1979. Then, it employed 6,000 people. The new ferry order will require it to add up to 300 jobs.

"We've got to be np-market to survive," believes Mr Mackie. Tha yard uses computers extensively and has moved to factory-type methods which save time, labour and thus money. It is currently building three coal ships for the Central Electricity Generating Board.

Instead of constructing the hull first and then putting in cabins, engines, and other equipment, with masses of men swarming over the ship and each skilled man waiting for another to finish, the trend is to build as much as possible in parallel.

Govan's increasing efficiency, says Mr Mackie, generates its own frightening impetus. "One of the things about better productivity is that you are creating a hungry, bloody animal and you've got to feed it."

Thus Govan hopes soon to win a Turkish order for three bulk carriers worth around £80m. Because of the ferry, to be ready in 1987, one of these will now be built at Sunderland Shipbuilders.

At the small end of the market, Ferguson-Ailsa in Scotland concentrates on offshore supply and support ships—it has won some £13m of such business from Canada and the UK in recent months—and has just won a £7m order from the UK Government for a fisheries research vessel.

"We had a very lean year in 1984," says Mr John Peach, managing director of Ferguson-Ailsa, which employs 750 people at Port Glasgow and Troon. Its highly specialised, high value-added ships are well suited in size and type to the sophisticated modular building approach.

It was mainly to act as a shock to the system that the Government brought in Mr Day to head the group after Sir Robert Atkinson, under whom losses had declined and then shot up again. "If the situation had not been seen to be critical, I do not think I would have been invited to return," says the Canadian.

A former boss of Cammell Laird, recently thrown a lifeline with the new frigate order after the workforce turned its back on militant pickets, Mr Day was to have become BS chief executive on nationalisation in 1977. But he left before the necessary Bill had passed Parliament, frustrated by lengthy delays.

He reckons he has so far done most of what he set out to do initially after his return in 1983. "It has been as arduous as I expected." He hopes no more major redundancies will be required after the latest batch.

"I heartily dislike making people unemployed. I hate that. But I have been totally convinced that unless you do, then the whole lot could be down the tubes.

"I am determined to do what I have to do."

Mr Eddie Shah has asked us to say that he was a "production assistant" on Coronation Street, and not a producer as stated in last Saturday's Financial Times.

Lombard

Now for a supply side programme

By Samuel Brittan

THE DAY before the UK Budget is a good time to remind ourselves that stagflation cannot be removed by the Chancellor raising a few taxes here, lowering others there, doing something clever in the financial markets and taking away the number he first thought of.

It might therefore be healthy to outline four examples of supply side reform which, if they were acted upon, would make far more difference to jobs and growth than anything strictly budgetary.

● The removal of all restrictions on coal imports.

● The removal of all domestic UK farm support not required by the EEC.

● The abolition of Wages Councils which fix the minimum pay of 2m to 3m workers.

● The abolition of rent controls.

It would be far more worth taking the political flack if these reforms were introduced together, so that the total benefits would be large enough to be noticed. Otherwise they might merely be seen as individual pieces of hard-heartedness.

The main reason for "not gloating" over the failure of the coal strike is that it is so easy for governments to snatch defeat from the jaws of victory. The two ministers most responsible for the Government's success over Arthur Scargill were Peter Walker's predecessor at energy, who made sure of ample coal stocks, and the minister in charge of the police, who defeated the flying pickets.

If their efforts are not to be thrown away, the artificial insulation of UK coal from international markets must end, by allowing the generating boards to buy coal in the cheapest market. Only then can we learn which pits have a chance of paying their way and begin the process of "workers' privatisation" which is far more important than "managements" right to manage."

It would be fair-minded to couple the above with an attack on a very different interest group, the farming lobby. A recent study *Farming for Farmers* (Richard Howarth, *Institute of Economic Affairs*, £4) demonstrates how most agricultural support spills over into land, prices and benefits the landowner rather than the working farmer.

The UK's ultimate aim should be to let the CAP die of financial starvation, but in the meanwhile there are numerous support schemes, national price guarantees and price-raising marketing boards, especially for milk, which the Government could abolish of its own volition—not to speak of farm rerating.

The third reform, the abolition of wages councils, should go without saying for a Government that talks of pricing people into jobs. Wages councils represent the false humanitarianism of preferring "no pay" to "low pay."

Yet scarcely credible though it is, the Government has kicked itself in the teeth by inspiring Press stories that wages councils' control will be lifted mainly for the young, who form a small part of the labour force, and whom ministers want to pressurise into "training" in any case.

As for abolishing rent control, which is also unlikely, an excellent summary of the case was made by none other than the Chancellor's Parliamentary Private Secretary, Peter Lilley, in a debate on March 8. In his own constituency of St Albans, jobs are available, but lack of accommodation is deterring workers from moving to take them.

Freeing rents would be both inequitable and less than fully effective so long as mortgage interest relief for owner occupiers remains. For the latter drives up the prices of houses and land, just like farm subsidies.

The four measures mentioned above are interrelated. Greater mobility is required if redundant miners or farmers are to find jobs and if full advantage is to be taken of the abolition of minimum pay. Thus decontrol of rents is an essential part of the package, which in its turn requires the phasing out of owner occupiers' privilege.

This last subject is regarded as the great unmentionable in Whitehall because of the Prime Minister's personal opposition. Just like devaluation in Harold Wilson's day. Yet, as the Wilson period showed, there can be no permanent unmentionables; and Prime Ministers cannot be shrouded indefinitely from unwelcome truths, especially if they want to govern rather than reign.

Letters to the Editor

Qualified people

From the General Secretary, Institution of Chemical Engineers

Sir,—In his Lombard column (March 11), Michael Prowse puts the case for promoting competition within the professions and then leads to a more provocative question as to whether there is a need for the professions at all, his claim being apparently based on the fact that the oil industry does not suffer because entry to that area of industrial activity is not restricted to "newly-minted oil professionals."

This is a grotesque misunderstanding of tha nature of an industry which needs to recruit people from many different disciplines, the main areas from which that industry recruits being engineering and science but also including a necessary smattering of lawyers, medics and others. Indeed the oil industry in this country employs a greater percentage of professionally qualified people than any other industrial sector. If one analyses the professional background of the boards of directors and senior managements of the oil companies then to use Mr Prowse's phrase a significant majority indeed do have "fancy letters after their names."

The industry depends on the professions to accredit the academic component of education courses within the university and polytechnic sectors and at least in the case of engineers, the industry actively co-operates with the professional bodies on questions of training and responsible experience which lead to chartered status.

T. J. Evans,
165-71, Railway Terrace, Rugby.

Looking at the Press

From the Managing Director, QRU.

Sir,—I read with interest Sua Cameron's report (March 12) on tha Newspaper Society's sales conference at which I was a guest speaker. The quotes which were extracted from my presentation in the valid interests of lively journalism nonetheless painted rather an unfairly seathing picture of the local or regional press and its readers.

My company was commissioned to examine and suggest ways of optimising the regional press, and there is no doubt that an extremely strong popularity base for local newspapers emerged during our studies. Many publications genuinely satisfied a remarkably diverse readership comprising peopla who were not all victims of the chronic human "frailties" selectively extracted from my talk.

To their credit, the Newspaper Society and its member publications ara sufficiently professional to introspect constructively on their strengths and weaknesses. They are prepared to reassess their image, "product" and target audience in order to build on their existing success, using outside research consultants. I think this is a braver philosophy than that adopted by many examples of British industry who either do so half heartedly or indeed not at all.

Graham Woodham.
PO Box 203,
Green Bank, E1.

Preaching to the unions

From Mr A. Tessler

Sir,—Mr MacGregor's letter (March 12) shows how little be has learnt from the tribulations of Nedo. He still focuses upon government policy and is unable to recognise that the three perhaps most decisive issues determining our competitiveness (productivity, design and export promotion) have nothing to do with government.

Why doesn't he—and others in Nedo—stop to ask; how is it that the French "Patronat" succeeded in "selling" the productivity concept to tha Communist-led trade unions while he and his colleagues failed so miserably? They might have succeeded if—instead of wasting millions on reports—they had devoted those funds to a personal approach; preaching the "productivity gospel" to thousands of companies. Now, belatedly (and, in essence Mr McGregor concedes my point here) Nedo is trying to do it with a tiny "sales force." Far too little and too late. But he is certainly right when be corrects me on one point; it was not 20 bnt, as he says, 23 years that bad been wasted.

Andrew Tessler.
Silverwood, Park Copse,
Dorking, Surrey.

VDUs in the office

From the Director General, Business Equipment Trade Association

Sir,—Having read your appraisal (March 11) of the Apex report on the health aspects of using visual display units, I would like to comment.

It is of the utmost importance to emphasize that the use of the *VDU is not, in itself*, a bealth bazard. The information technology industry has always been at pains to point out the fact that any health problem is, in the main, caused by environmental conditions in the office—for instance, unsuitable lighting, furniture and office seating. And this is largely substantiated by the Apex report.

Richard J. Palmer,
8, Southampton Place, WC1.

Contribution rates and the affordability of future pensions

From Judy McKnight.

Sir,—Mr Edward Johnston (March 1) surely does protest too much and answer too little. No one who has read his excellent 1982 quinquennial review doubts but that the cost of the state earnings related pension scheme (SERPS) will increase over the next 40 years—as appendix H indicates. On the then assumptions and at 1981-82 earnings levels, SERPS costs are projected to increase from £144m currently to £6.5bn in 2025-26. That report more properly and usefully indicates that, on the same assumptions, the total class 1 standard national insurance rate would increase over the period from 15.3 per cent to 20.3 per cent.

But the issues raised by Mr Cullen are more substantial and require a more careful response from the Government Actuary. In 1982 he assumed that the flat rate basic retirement pension would be uprated in line with earnings from year to year. Current legislation in fact provides for increases in line with prices only and reflects the government's policy and practice. Mr Johnston's 1984 publication shows that on the basis of prices only upratings, the increase in contribution rates (for pensions only) would be a rise from 12.5 per cent now to a mere 14.7 per cent in 2025-26. This latter projection not only includes the revised estimates of fertility and mortality changes but also the reduction of the Treasury Supplement from 13 per cent to 11 per cent. It is hardly possible to reconcile Mr Johnston's assertion abont the "substantial emerging pension payments during the first quarter of the next century" with contribution increases of a mere 2.2 percentage points over the next 40 years.

As Mr Johnstone knows better than most of us, it is neither sensible nor relevant to consider the costs of pension payments in assessing the burden or affordability of future pensions. The key to understanding lies in changes in contribution rates. This is the measure which indicates whether our children will reasonably be able or willing to afford our pensions. Contribution rate changes depend themselves not just on projections of demographic changes, but quintessentially on the basis of uprating pensions over the next half a century coupled with the average annual gap betwaen price increases and earnings increases. The gap is a reasonable proxy to annual productive economic growth. It is from the increased wealth formulation of working contributors over the next 40 years that the increasing costs of state pension payments can readily be afforded, as even a cursory examination of the fine print of the Government Actuary's estimates reveal.

The most startling of the Government Actuary's 1984 assumptions is tha bland acceptance that the gap between earnings increases and price increases over the next 40 years will be only 1½ per cent per annum.

This assumption, described by tha Actuary as "not unreasonable for the longer term" is at stark variance with the Chancellor's statement on January 31 that the underlying annual rate of growth of the economy was running at 3 per cent can be achieved in the current recession how much higher could growth be once the policies of tha medium term strategy come to fruition? Either way it reinforces Mr Cullen's suggestion that the projections of future relative pensions costs have been based on unrealistically pessimistic asumptions. As e member of Mr Fowler's revision Review team, Mr Johnston knows the answers as well as the questions. Mr Johnston can clear the imputations against his own and his Department's independence only by complete and explicit description of the assumptions for his projections—features which are lacking both in his 1984 publications and his letter of March 1.

Judy McKnight.
Action for Benefit,s
c/o Society of Civil and Public Servants,
124-130 Southwark Street, SE1.

FINANCIAL TIMES

Monday March 18 1985

Michael Morgan on Wall Street

NYSE's battle to stay No. 1

MR JOHN PHELAN, chairman of the New York Stock Exchange, last month set out his vision of the future. It was a world, he said, in which stock exchanges would be linked worldwide, engaged in "24-hour, seven-days-a-week trading in stocks of 200 to 300 large, well-managed companies."

The key to this brave new world, Mr Phelan added, would be unprecedented advances in technology. In recent years, the NYSE has completed a $100m fully electronic trading system.

Mr Phelan's emphasis on the international arena underlines the NYSE's determination to remain the world's premier stock exchange. But technology is not only a weapon in the international market. It is also a necessary defence against the inter challenge to the exchange coming from the rapidly-growing, computer-based Nasdag Over-the-Counter market.

Nasdaq is seen to pose a threat to the NYSE because of its attraction to many of the new, high-technology companies which are the big beneficiaries of economic growth.

Traditionally, new companies like these would have used the smaller exchange as a route to a listing on the NYSE, but some of Nasdaq's erstwhile infants have now grown into mature companies *without showing any signs of wanting* to make the move to the Big Board, as the NYSE is familiarly known. Indeed, even the NYSE concedes that there are now 250 companies on Nasdaq that would meet Big Board listing requirements.

Nasdaq is growing at an extremely rapid pace, while total listings on the NYSE have been more or less stable for the last five years at about 1,550. Membership of the Nasdaq national market system – the most prominent part of the Nasdaq market, where stocks are subject to last sale reporting – grew from 682 to 1,080 in 1984 alone.

In response, the NYSE points out that 450 new companies have been listed – many from Nasdaq – since 1979; but a similar number have disappeared, swallowed up by mergers and acquisitions. It adds that the value of shares traded on the Big Board has grown from $389bn in 1981 to $764bn last year. The value of Nasdaq trading has grown from $71bn to $153bn in the same period.

The NYSE is responding to the challenge from the newer exchange on three fronts. First, it has spent heavily on technology to keep its trading system as efficient as possible.

The iron test for these new electronic systems has come in the last 12 months, when trading has been characterised by huge short-lived surges in demand. Only a few years ago the Big Board would have been unable to handle the 237m share deals which passed through the exchange on its record-breaking day of August 3 1984.

Second, the NYSE is edging ahead towards the 24-hour-a-day trading pattern. One sign is a proposal to extend trading hours by half an hour at each end of the day.

Another is a merger proposal with the Pacific Stock Exchange in Los Angeles. Some Big Board investors already use the Pacific Exchange to deal in stocks after the NYSE is closed, but a merger agreement would expand the range of stocks available to investors, and might be accompanied by an extension in the Los Angeles exchange's opening hours to allow trading to continue to as late as 7pm eastern standard time.

In addition, the NYSE is talking to the London Stock Exchange about the possibility of some joint venture, and says Tokyo would be the next logical step.

Third, the NYSE is aiming to expand its product range. The Big Board recently won approval from the Securities and Exchange Commission to trade stock options, and if the merger with the Pacific comes off, it aims to start trading the other exchange's existing options. Just over a year ago the NYSE introduced two stock index option contracts, which it would like to trade in the Pacific exchange after the proposed merger.

One question raised by this push towards new trading horizons is whether the NYSE will be able to maintain its high listing requirements, generally regarded as a model for other exchanges.

In particular, critics have homed in on a sub-committee proposal that companies should be able to create dual classes of common stock, which might have disproportionate voting rights.

Under the NYSE's strict listing requirements companies are not allowed to issue more than one class of common stock.

There is now, however, a fear that companies could issue special stock and critics charge that this might lead to the practice of issuing shares with preferential voting rights simply to prevent unwelcome takeovers.

Gandhi eases controls to stimulate industry

BY JOHN ELLIOTT IN NEW DELHI

A WIDE-RANGING relaxation of India's industrial controls was launched at the weekend by the Government of Mr Rajiv Gandhi in an attempt to stimulate industrial investment and efficiency.

Nearly half the companies covered by the country's monopoly legislation are to be freed from its basic controls, and 25 industries are being exempted from basic licensing procedures.

Customs and excise duties have been cut or removed on computers and other electronics equipment, and corporation tax has been cut at the start of three years of progressive reforms.

The plans, which provide India's private sector with its biggest challenge in the country's 38 years since independence, were contained in the budget speech delivered to the Indian parliament on Saturday by Mr Vishwanath Pratap Singh, the Finance Minister. They were widely welcomed by industry yesterday.

Mr Gandhi is committed to changing the course of India's traditionally protectionist policies and complex bureaucratic controls in an attempt to boost annual industrial growth from 7 per cent to between 8 and 9 per cent.

Further measures will follow in India's annual trade policy statement early next month. They include a switch, already started, from detailed controls on individual imports to selective import duties.

The most dramatic announcement in the budget speech concerned the country's Monopolies and Restrictive Practices Act which aims at stopping individual companies growing so large that they form concentrations of economic power.

The bottom limit for the asset value of companies falling within the act's jurisdiction was raised from Rs 200m ($15m) to Rs 1bn. This merely restores the limit to the level originally set in 1969, after allowing for inflation. It was a major concession, however, because there has been no increase in the past 15 years and the new limit is twice as high as the Rs 500m requested by industrial federations.

The Ministry of Industry estimates that about 800 of 1,700 companies covered by the act will be exempted from the legislation. This means they will be allowed to invest in any industry instead of being restricted to the ministry's list of key industries, known as appendix one.

The 25 industries being exempted from basic licensing include motor components, cycles, machine tools, agricultural equipment, some industrial and office machinery, bulk drugs developed in India, leather goods, and glassware.

This move follows other recent changes in industrial licensing procedures, but is the most dramatic in a series of initiatives launched in the past four years.

To encourage the electronics industry, customs duties on some advanced computers not made in India are to be cancelled, and all excise duty on Indian-made and imported computers is being removed. Customs duties on some computer and other electronics components are being reduced to cut India manufacturing costs.

Tax incentives welcomed, Page 2

First vote setback for Greek presidential candidate

By Andriana Ierodiaconou in Athens

THE GREEK Parliament yesterday failed to elect in the first round Mr Christos Sartzetakis, the ruling Socialist Party (Pasok) candidate, as president of the Republic.

The Supreme Court judge needed a two-thirds majority in the 300-member Parliament yesterday to get into the first of three rounds of voting. However, only 178 MPs voted in his favour, three votes were blank and three invalid. The 113 conservative opposition MPs who attended the poll abstained from casting ballots.

Three absentees made up the balance – one conservative and two Socialist MPs. One Socialist minister was travelling abroad on official business, and the second, Mr Yiannis Alevras is the acting President of the Republic and former speaker of the House whose right to vote in the presidential elections is in doubt under the constitution.

The result was disconcerting for the Government, not because their candidate failed to draw the 200 votes needed for election in the first round – the distribution of parliamentary seats in conjunction with the declared positions of the parties ruled this out from the start – but because it fell short of the reduced, 180-strong majority, needed to get Mr Sartzetakis elected in a third round on March 29.

The second round will be held next Saturday, but again 200 votes are needed for election.

If Mr Sartzetakis is not ultimately elected, the Socialists will have to cope with early general elections in May – automatically prescribed by the constitution having suffered a loss of political face. The Government caused a furore one week ago when it put forward a candidate for the presidency. The Socialists had previously supported the re-election of Mr Constantine Karamanlis, a former Conservative Prime Minister and Greece's President since 1980. Mr Karamanlis resigned after the Socialist decision was announced.

Furthermore, there may have been some dissenters among the 164 Socialist MPs who voted yesterday.

The close result makes the acting president's vote the decider and the Government is expected to fight to secure Mr Alevras' right to vote before the third round.

The country's constitutional experts, called on by the Government for advice last week, were divided on the issue. The Government has now decided to put the matter before parliament.

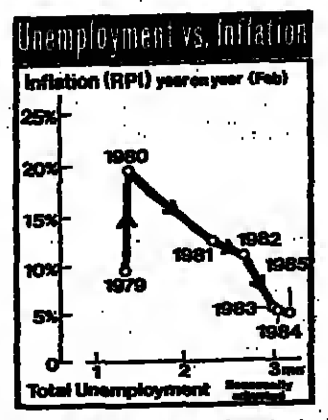
A Government official claimed yesterday that the results of the first round demonstrated "the complete unity" of the Socialist parliamentary group.

THE LEX COLUMN

Mr Lawson's box of mysteries

If Mr Nigel Lawson, the UK Chancellor of the Exchequer, had achieved nothing else by means of his first budget in 1984, he could at least claim to have given the City of London a new and much more interesting way of worrying about budgets to come. The traditional guessing game, in which teams of economic analysts competed to estimate the size of the fiscal stimulus, had lost a lot of its edge in an era of medium term strategies – however loosely implemented. Monetary specialists could still earn some kudos (and large gilt-edged commissions) by working out how much government debt the market would be asked to buy; but with every year that passed, the equity market was becoming palpably less sensitive to the level of demand in the economy.

By the time Mr Lawson became Chancellor, creeping boredom had almost succeeded in reducing the budget to its proper constitutional place – as one half of a book-balancing exercise, rather than the focus of the financial year. At that point, the Chancellor's change in the rules, to concentrate on the amount of structural change he could accommodate in a given fiscal package – as well as the size of the bundle – came as rather a shock. This year, it has caused a bull-market in pre-budget speculation; now that there is more to guess than the difference between two large numbers, the game is much more fun.



Resistance

Less fortunately for the Chancellor, diminishing political returns to innovation appear to have set in rather fast. Last year's reshaping of company tax gave him an easy start in the campaign for fiscal neutrality, since the heaviest burdens fell on the banks, for whom nobody had much sympathy to spare. But it has been obvious to the most stolid of backbenchers that the next target for reform, the taxation of savings, could prove almost as hard to sell in rural Britain as in the boardrooms of insurance companies. The endemic drawback of structural reforms – that they offend entrenched interests – is bound to be a particular problem for conservative reformers.

For all that, the proposal to tax the investment income of pension funds has remained persistently in the air – along with the taxation of lump sum benefits – and it looks as if the funds may succeed the clearing banks as this year's principal butt of tax reform. There is indeed, a respectable case to be made for shifting the balance in favour of personal saving, which would be consistent with the Government's recent talk of an "enterprise budget" – and increase the capacity of small shareholders to pay the calls on their holdings of British Telecom, to boot.

But if pension funds are to be pulled into the tax net, it should be in the cause of improving the long-run trade-off between personal and institutional saving; glad as the funds might be to escape with a supposedly exceptional levy – along the lines of the windfall tax on banks – there is no fiscal logic to such Sheriff of Nottingham tactics. The best that the Treasury could claim for such a raid would be a permanent increase in the uncertainty of plans to avoid tax, which may be no bad thing when it comes to revenue-raising but contradicts everything that the Government has ever said about the consistency and predictability of its taxation policy.

Uncertainty as to the content of the budget has in general been greater this year than for some years past, no doubt intensifying the Chancellor's amusement at the flood of conjecture. Security has blanketed out any new strategic themes perhaps more effectively than individual measures. Thus, the departure which has been most thoroughly prepared is a modest extension of the VAT base, generally supposed to include newspapers, or their advertising revenue, commercial buildings, and caviare. A piecemeal extension of this kind would look little more than an attempt to replace the additional VAT revenue that came in on a once-off basis last year through accelerated payment.

It would also fall a long way short of executive the doctrinally favoured project to switch the main burden of personal tax from income to consumption – a line of attack on the poverty and employment traps which has been too lightly dismissed as likely to prove regressive.

If the UK financial institutions yet again escape the imposition of a financial services tax, it may still hope that the Chancellor will offer some compensation for other swings at the capital and revenue foundations of financial companies. Stamp duty is bound to go sooner, rather than later. And an end to the lucrative trade in bond-washing has encouraged hopes of a complementary end to the artificial old capital gains/income distinction on which it rested, doing away with capital gains tax. The logical outcome would indeed be the adoption of an accruals method for taxing all gains, but that is perhaps too radical for even this Chancellor – at any rate this year.

Of course, until the sterling crisis which blew up in January, it appeared that Mr Lawson not only had the chance to change the pattern of taxation, but an exceptionally free choice of fiscal stance. The combination of steady devaluation, reviving exports, a reasonably stable dollar oil price and relatively slack interest rates gave him an unusually free hand, despite the costs of the coal dispute. Despite the expected bounce-back in output, in the eyes of at least half the market that freedom has almost completely evaporated. Such is the way of things, moreover, that the perceived need for a tighter finance bill seems to have been reinforcing the opposition to fiscal reform.

If the markets succeed in getting a tight tax budget on top of the recently stiffer interest rate policy, they may not enjoy it much. And if Mr Lawson produces a small fiscal adjustment and a PSBR much below £7bn the probability is that the gilt-edged market and the exchange speculators will not believe him in any case; the White Paper on expenditure is not an encouraging prelude. In the background, parliamentary pressures to finance an expansion of public spending before the next general election rises over the planning horizon. It gets harder, even for the gilt-edged market, to ignore figures which suggest diminishing electoral returns to tightness – as well as to novelty.

Leading chemicals groups lift plastics prices 10% in Europe

BY TONY JACKSON, CHEMICALS CORRESPONDENT, IN LONDON

PLASTICS prices across Europe are rising sharply after a long period of decline. Supply shortages are allowing major producers such as ICI, Shell and BP to push through increases of 10 per cent and more across a wide range of commodity products.

Severe weather in January caused damage to a number of plants throughout Europe, in the South of France especially. In many cases repairs are still being carried out. Also, a cracker in Cologne owned by Rheinische Olefin Werke which exploded in January is still out of commission, and production difficulties are being experienced by Norwegian manufacturer Statoil.

The price rises apply in particular to low density polyethylene (LDPE), high density polyethylene (HDPE) and polypropylene (PP). Given the acute overcapacity still existing in Europe, buyers had run stocks down in January and February in the expectation that the price weakness of previous months would continue further.

BP chemicals said as a result "stocks of both LDPE and HDPE are at their lowest level for two years." In PP, according to Shell, "supply is very tight right across Europe, and a number of producers have run out of stock entirely."

At a time when dollar strength is pushing the price of naphtha feedstocks to all-time highs, producers have had every incentive to take advantage of supply shortages, however temporary.

In LDPE, says Mr Ivan Gooch, a leading official for the UK plastics converting industry, "we have had two bouts of increases this year so far, amounting to around 10 per cent, and we are likely to be faced with another 10 per cent in the course of this month."

Increases are still arriving. BP Chemicals charges about DM 1.85 (55 cents) per kilo of general purpose LDPE, DM 1.80 for linear LDPE and DM 1.90 for HDPE. "By April," the company said, "we are looking for DM 2.00 across the board." In PP, Italian producer Himont raised its prices by 10 pfgs on February 1, and again on March 1. On the second occasion it was joined by ICI and Shell, which have both pushed up prices by about 8 per cent.

The European industry uses D-Mark prices as a benchmark, but prices are being raised by the same amount in all local currencies, including sterling.

ICI said: "It looks like the recovery could go further." Shell said: "We are aiming for further increases in April and May."

It is widely thought, however, that the price increases could prove short-lived. The price collapses of last year – about 35 per cent, in the case of LDPE – were due to European overcapacity of up to 20 per cent, and attempts by producers to build market share ahead of the next downturn in hopes of avoiding plant closures. An additional cause was the expected arrival of low-cost product from Saudi Arabia. Both factors still apply, and Saudi linear LDPE is expected to reach Europe in quantity around May of this year.

Damascus wary of showdown

BY RICHARD JOHNS IN BEIRUT

A TENSE stalemate on the outskirts of northern Beirut between the Syrian army and the Christian Lebanese forces continued yesterday with clear indications that Damascus, despite repeated warnings and the build up of military pressure, is reluctant to have an armed showdown with the "rebels."

Any attempt at decisive military intervention against the Lebanese forces would probably rally almost all the Christian population behind the pro-Israeli leader Mr Samir Geagea, who last Thursday led what he called an "uprising" against Syrian interference in Lebanese affairs.

Foreign diplomats believe Mr Geagea already enjoys the backing of the majority of the Christian community, thus placing President Amin Gemayel in an increasingly untenable position which could lead to his resignation. They believe any move by him to mobilise the reconstituted Lebanese army against the dissidents could lead to its disintegration.

The continuation of the deadlock can only weaken the slender authority of President Gemayel following the blow delivered by the Lebanese forces, the combined militia of the Christian Maronites, to declare their independence from the Phalange Party, founded by the head of state's late father and constituting his main power base in the Christian community.

So far, the deployment of Syrian forces involving up to three brigades across a 16-mile front from Batroun on the coast inland seems to amount to no more than a sabre-rattling exercise designed to intimidate the dissidents opposed to Mr Gemayel's collaboration with Damascus and efforts to get agreement on political reforms providing for a more equitable power sharing needed if there is to be a lasting political settlement.

The crisis in the Christian heartland of Lebanon – generally thought by Moslems to have been stimulated by Israel – has led to what appears to be an intensified effort by Islamic Shia extremists, presumed to be members of Hezbollah, the Iranian-backed "Party of God," to drive foreigners out of predominantly Moslem West Beirut.

On Saturday, Mr Terry Anderson, Middle East bureau chief of the Associated Press news agency, who is a U.S. citizen, was kidnapped by armed gunmen. Earlier last week two Britons, scientist Mr Geoffrey Nash and businessman Mr Brian Levick, were abducted.

Following the phased withdrawal of most U.S. Embassy staff from Christian-controlled East Beirut Mr David Miers, the UK Ambassador, has advised British citizens to leave West Beirut.

Iranian threat to main route

Continued from Page 1

bardment of Iranian cities. Several missiles yesterday hit the town of Dezful and nearby village of Andimeshk killing about 12 people and wounding 200, according to Tehran radio. Iraqi aircraft also attacked Iranian cities but Iran claimed that a raid on Tehran had been beaten off.

Iraq later declared Iranian airspace to be a prohibited war zone and said civilian aircraft could be exposed to attack from 1700 GMT today. Several European airlines serve Tehran and at least two last week announced a temporary suspension of flights.

The increased level of fighting in the Gulf war has brought a flurry of international appeals for restraint. Iraq yesterday sought the help of the United Nations in securing a ceasefire and a return by both countries to the international border. On Friday the Security Council urged a halt to attacks on civilian targets and the Pope yesterday said defenceless people were being overwhelmed by the conflict.

Fed in crisis talks on Ohio banks

Continued from Page 1

Hundreds of depositors in this normally conservative state expressed growing scepticism, anger and frustration about the savings bank closures that have left many of them without access to their money. A hotline set up by the Governor to handle inquiries from anxious depositors was receiving more than 1,000 calls an hour.

The closures have already split the state's financial and commercial community. Some federally insured savings banks set up emergency cash drawing rights for customers of the closed thrifts. Others, and some shops, now refuse to accept cheques drawn on non-federally insured accounts. Many savings bank customers complained that cheques drawn on their savings bank accounts well before the bank holiday were declared have been returned. Banks and shops are not accepting cheques drawn on Home State accounts since its closure 10 days ago.

Radio station chat shows and newspapers throughout the state have been deluged with queries

World Weather

		°C	°F
[illegible]	[illegible]	[illegible]	[illegible]

Readings at mid-day yesterday: C-Cloudy D-Drizzle F-Fair Fg-Fog R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Right gains in France

Continued from Page 1

According to these first estimates, the left would poll about 46.5 per cent of the vote in these cantons compared with 43 per cent last week, while the right-wing opposition parties would poll 53 per cent compared with 54.2 per cent last Sunday.

However, the left was generally expected to do better in the second round because voting was predominantly in more urban centres, compared with the first round involving 18m voters and many rural areas won by the Opposition.

The cantonal elections are the last major series of local elections in France before the parliamentary elections next year. They have thus been regarded as a key national political test and a pre-run of the 1986 legislative polls.

One of the most interesting aspects of the second round of the cantonal elections was the way in which supporters of the extreme right National Front would vote. The National Front finally agreed last Wednesday to drop candidates in cantons where other right-wing candidates had better chances of winning. In the first round, involving about 2,000 cantons, the National Front polled 8.69 per cent of the vote.

Published by The Financial Times (Europe) Ltd., Frankfurt Branch, represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter Societäts-Druckerei GmbH, Frankfurt/Main. Responsible editor: C.E.P. Smith, Frankfurt/Main.

هكذا من الأصل

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday March 18 1985

Soviet foreign trade bank to launch first sterling issue

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

VNESHTORGBANK, the Soviet foreign trade bank and the country's main international borrower, has turned to Lloyds Bank International for what is believed to be its first publicly syndicated credit in sterling.

Today it is launching a £75m seven-year credit which will bear interest at a margin of ¼ per cent over money market rates for the first three years rising to ⅜ per cent for the last four.

The deal follows a pattern established recently by the Soviet Union of borrowing regularly in a range of different currencies in an apparent effort to limit its exchange market risk and diversify its source of funds. Other recent deals include an Ecu 100m credit arranged by Crédit Commercial de France and a SwFr 100m loan led by Swiss Bank Corporation.

Bankers say the Soviet Union has stepped up the pace of its foreign borrowing since last year, probably in response to falling oil prices and to pay for a heavy grain import programme. It may also be seeking to stretch out the maturity of its existing debt, though given its secretive approach, this is hard to prove.

What is clear, however, is that its borrowings are meeting a positive response from the market, being frequently oversubscribed and increased as banks seek to compensate for a shortage of lending opportunities elsewhere.

The new deal, which has a grace period of four years, is to be offered to a range of banks in London including U.S. institutions, even though these have so far stayed out of Soviet deals for political reasons.

Elsewhere, the Eurocredit and Euronote market has become quite busy. Large facilities were launched last week for Nationale Nederlanden, the Dutch insurance company, and for CEPME, the French state agency for financing small business. Standard and Poor's, the U.S. rating agency, has awarded its first ratings to a Euronote issue, a $500m deal for Commonwealth Bank of Australia.

The CEPME deal, which is led by Bank of America and Crédit Lyonnais, is for a total of $300m and will allow the borrower to issue commercial paper in dollars or Euronotes denominated in Ecus. CEPME has chosen an unusual structure, reflecting its belief that the dollar paper is easier to sell to non-bank investors than Ecu notes. For the former it has therefore dispensed with what it regards as the cumbersome tender panel system.

The dollar paper will simply be sold on a best efforts basis through Bank of America and Lehman Brothers, while a tender panel will operate for the Ecu notes.

The facility is backed up by a 10-year standby credit with utilisation fees and commitment fees on a sliding scale depending on the extent of drawings and availability respectively. Part of the credit, amounting to $100m, will not be used at all in the first year and had been designated as a "frozen reserve" bearing a very low commitment fee. Later it can be used to back up longer-term borrowings of more than one year.

The upshot is that banks could expect a respectable 43 basis-point return if the credit is fully drawn and are guaranteed a minimum income of 7¼ basis points in facility fees even if it is not used at all.

Bank of America is also leading the Nationale Nederlanden deal which is a five-year facility allowing the issue of up to $300m in short-term notes and a $200m revolving credit to back up commercial paper issues in the U.S.

Back in the Eurocredit market, 10 banks are to travel to Athens today for final discussions on the forthcoming eight-year credit for Greece. The amount of this deal is now expected to be $450m, but the margin of ½ per cent will probably apply for only three years instead of the four previously sought by Greece. This gives a longer, five-year period with a ⅜ per cent margin.

Primary market restraint proves a welcome relief

BY MAGGIE URRY IN LONDON

UNTIL FRIDAY afternoon there had been no fixed-rate dollar bond issues launched in the Eurobond market last week. With a huge amount of unsold paper outstanding from February's deals – mostly quoted well outside their commissions – and buyers still on strike, restraint among syndicate managers is a welcome relief, though not a cure for the market's ills.

Swiss and German investors would take a lot of convincing on both exchange and interest rates before they would start buying straight dollar bonds again. With trading in the New York bond market thin and volatile, Eurodollar bonds passed an unsettled week, spending most of it retracing the gains made on Monday.

The peace in the primary market was broken by Österreichische Länderbank launching a $100m deal with a 12 per cent coupon which rival syndicate managers regarded as ¼ to ½ point too aggressive. The borrower is 85 per cent-owned by Austria, however. The deal should have produced a swap into floating-rate dollars at attractive terms.

With the straight primary market virtually closed, investment bankers were turning their attention and ingenuity to the floating rate market. Numerous variations on that theme were composed, with the mis-match formula most common.

Out of a total floating-rate issue volume last week of $2.275bn, $1.85bn give investors the mis-match play on the yield curve. By refixing the coupon monthly at a six-month rate, investors can fund their holdings at one-month rates. The difference between one and six-month London interbank offered rate (Libor) on Friday was still 1⅛ percentage points.

Borrowers can achieve increasingly fine terms while still giving investors a better deal than an ordinary floater would offer. Even when the margin was set at ⅛ per cent under London interbank bid rate (Libid) for Den norske Creditbank and Sweden issues, the pick-up from one month Libor remained high at 15/16 point.

Even so, the volume of issues was proving too much of a good thing by the weekend, and many of them were coming under pressure. Dealers noted that the recent batch of mis-match deals have come without any protection against an inverse yield curve.

Finland's issue – its first FRN – met good demand from diverse sources. It applies the mis-match formula using U.S. Treasury bill rates. By Friday night the issue was largely placed and was trading just outside its selling concession.

Syndicate managers are also looking to do business in other currency sectors with Morgan Guaranty, for example, leading issues in sterling, European currency units and Danish krone while Hambros tapped the Australian and New Zealand dollar markets. If continental European investors are buying anything, it is high coupon bonds where there is a chance of exchange-rate gain.

The Eurosterling market received four new issues, with British Petroleum's deal getting notably cheap funds for the borrower. The deal matures on September 22 1992 – the same day as the UK Government repays its Exchequer 13¾ per cent 1992 issue. Dealers pointed out that BP could have used the £50m proceeds of its issue to buy the gilt and pick up a point in yield in the process.

The deal was quoted around its 2 per cent total fees on Friday afternoon.

The Danish krone Eurobond market got off to a flying start with the first two real deals both roaring successes. The currency is regarded as a strong one within the European Monetary System and is thus appealing to other European investors, while the coupons are high.

The Swiss franc bond market is holding up well despite the high level of inflation – now 4 per cent – which is cutting into real bond yields. Recent issues have generally met a good reception in initial trading, as yields have adjusted upwards.

The generosity of the pricing of the new EIB issue, at 99¼ with a 6 per cent coupon, came as something of a surprise to the market, which had expected the small syndicate banks which led the issue to give the borrower tighter terms.

On Friday Lonrho announced a SwFr 100m public issue with a likely yield of 6¼ per cent, while today e public deal for Sweden is expected.

The fragile D-Mark bond market will be tested today by two issues for the World Bank, a DM 300m public deal and a DM 200m private placement.

EUROMARKET TURNOVER

Turnover ($m)

	Straights	Conv	FRN	Other
Primary Market				
U.S.$	1,566.2	108.9	1,811.4	29.0
Prev	2,692.9	129.6	1,580.9	203.0
Other	273.3	–	4.3	3.4
Prev	361.3	–	103.8	44.0
Secondary Market				
U.S.$	16,357.9	803.6	12,958.5	1,871.6
Prev	17,608.5	904.8	17,630.0	1,396.1
Other	1,972.0	14.0	95.7	1,069.5
Prev	2,345.9	84.0	307.7	1,284.4

	Cedel	Euroclear	Total
U.S.$	11,053.0	24,454.2	35,507.2
Prev	12,995.1	29,120.8	42,115.9
Other	1,926.1	1,506.1	3,432.2
Prev	2,349.5	2,182.7	4,531.2

Week to March 14, 1985 Source: AIBD

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
Citizen Watch §‡	50	2000	16	3	100	Nikko Secs (Europe)	3.000
Cadbury Schweppes §‡	80	2000	15	8	100	Kleinwort Benson	9.000
Malaysia Ø†‡	600	2015	30	(a)	100	CSFB	–
Wells Fargo (b) †‡	200	2000	15	⅛	100	Salomon Brothers	–
Aumar (c) †‡	125	1995	16	1/16	100	UBS (Secs)	–
Nat. Bank of Canada (d) †‡	100	1995	10	⅜	100	Morgan Stanley	–
Bangkok Bank Ø†‡	100	2000	15	(e)	100	CSFB	–
Bqe Brux. Lambert Ø†‡	100	1993	8	(f)	100	CSFB	–
St. Paul Cos. §‡	100	2000	15	7½	100	Goldman Sachs	7.500
Toshiba Ceramics §	50	2000	15	(3)	100	Daiwa Europe	*
BNP Ø†‡	300	2005	20	(f)	100	BNP	–
Japan Aviation Elec. §	40	2000	15	(3)	100	Daiwa Europe	*
Den norske Creditbk Ø†‡	150	1991	6	(j)	100	Salomon Brothers	–
Finland Ø†‡	100	1990	5	(k)	100	Citicorp Int.	–
Sweden Ø†‡	500	2005	20	(j)	100	CSFB	–
Ost. Landerbank ‡	100	1992	7	12	100	Yamaichi Int. (Eur)	12.000
CANADIAN DOLLARS							
Desjardins de Quebec ‡	50	1990	5	12½	100	Wood Gundy	12.500
Bell Canada ‡	125	1997	12	12¼	100	UBS (Secs)	12.256
Montreal Trapsport ‡	20	1992	7	12¾	100	Bqe Int. a Luxem.	12.750
AUSTRALIAN DOLLARS							
G. J. Coles ‡	25	1990	5	13¼	100	Hambros Bank	13.250
NEW ZEALAND DOLLARS							
Dunlop Olympic ‡	25	1990	5	15⅝	100	Hambros Bank	15.625
D-MARKS							
Daishinpan ¶	60	1990	5	(3⅞)	100	Deutsche Bank	*

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
SWISS FRANCS							
Jukan Sangyo **§‡	25	1990	–	1⅞	100	Banca della Sviz. Ital.	1.875
Hosan Corp. **§‡	30	1996	–	1¾	100	SBC	1.750
Sumitomo Heavy Ind. ‡	100	1993	–	6	100	SBC	6.000
Stanley Electric **§‡	70	1990	–	1¾	100	UBS	1.750
EIB ‡	150	1995	–	6	99¼	Kredietbank, Gutzwiller, Soditic	6.102
EdF (g) †‡	100	1997	–	⅛	100	SBC	–
EdF ‡	100	1995	–	5⅞	99¾	SBC	5.909
Mitsui OSK Lines ¶	100	1990	–	(3½)	*	SBC	*
Kansai Elec. Power **‡	150	1990	–	5⅞	100	UBS	6.875
IADB **‡	50	1991	–	6⅛	100	SBC	6.125
IADB **‡	75	1992	–	6¼	100	SBC	6.250
Brambles Holdings **‡	35	1990	–	6¼	100¼	Handelsbank	6.190
Lonrho Finance	100	1995	–	(6¼)	*	Kredietbank	*
ECUs							
ENI (h) †‡	135	1992	7	⅛	100	Morgan Guaranty	–
Megal Finance ‡	75	1995	10	10⅛	100	Credit Lyonnais	10.125
STERLING							
PRIVATbanken ‡	20	1992	7	11⅞	100	S. G. Warburg	11.875
Sterling Drug ‡	30	1990	5	10⅞	100	Morgan Guaranty	10.875
BP ‡	50	1992	7½	10¾	99¾	Morgan Guaranty	10.773
World Bank ‡	100	1995	16	11¼	99½	Baring Brothers	11.336
DANISH KRONNER							
EIB ‡	250	1995	16	12	99	Sparekassen	12.178
Nordic Inv. Bank ‡	200	1990	5	12	100	Morgan Guaranty	12.000
GUILDERS							
FGH Mortgage Bank **‡	50	1990	5	8¼	100	NMB	8.258
LUXEMBOURG FRANCS							
City of Gothenburg **‡	250	1990	5	10	100¼	Bqe Paribas Luxem.	9.934

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. Ø Mis-match. (a) at 6m Limean. (b) ⅛ over 1m Libor. (c) 1/16 over 6m Libor, additional $50m tap. (d) ⅜ over 3m Libor first 2 yrs. 3/16 over 3m Libor thereafter. (e) At 6m Libor. (f) At 6m Libid. (g) ⅛ over 6m Libor. (h) ⅛ over 3m Libor. (j) At 1/16 under 6m Libid. (k) 60 bp over 6m T-Bills, money market equiv., refixed monthly. Note: Yields are calculated on AIBD basis.

U.S. MONEY AND CREDIT

Ohio close-down prompts flight to quality

THE U.S. CREDIT markets have had enough to think about over the last week without having to worry over the difficulties of an obscure little Government securities trader down in Florida. But the collapse of ESM, after starting quietly enough a week ago, sent out a shock wave which seemed to grow as it spread across the country. It finally ended in a burst of panic on Friday, as 71 state-insured savings banks in Ohio were closed down for three days, and jittery investors on Wall Street fled to the safety of short-term Treasury issues.

This "flight to quality," reminiscent of a similar reaction in the credit markets to the near-collapse of the Continental Illinois Bank of Chicago last year, sent Treasury bill rates tumbling. Three-month bills, for example, fell from 8.77 per cent on Thursday to 8.46 per cent, while six-month rates slipped from 9.22 per cent to 9.01 per cent.

Bank certificates of deposit, on the other hand, had to be marked up substantially, as investors reacted edgily to renewed fears about the stability of the banking system.

All this followed an unsettling period of mixed signals from the economy. The week started with the feeling that economic growth was perhaps not running away at the rapid rate the market had feared, and that the Federal Reserve Board might be able to hold its grip on credit roughly where it is at present. The rally in the bond market on the previous Friday had seemed to indicate that the back-up in rates over the previous month was probably enough.

But then on Wednesday along came some unexpectedly buoyant figures on retail sales, showing a 1.4 per cent increase in January. The credit markets reacted predictably, seeing this as a sign that growth was still a little too lively, and pushed rates back up again. On Friday, Washington produced another set of contrary figures—industrial output statistics showing a 0.5 per cent decline in February. But by that time the markets were focusing as much on the savings banks in Ohio as on how to react to the economic news.

Some analysts take the view that there is no great inconsistency in the economic figures in any case. Final demand, they say, still seems to be fairly strong, but there is continuing sluggishness in the manufacturing sector, partly reflecting the strength of the dollar, which has allowed imports to take market share away from domestic manufacturers.

Meanwhile, there is equal concern about the rapid pace of monetary growth and the current tactics of the Fed. The money supply figure this week showed a $400m drop in M1, but this was very much in the range of expectations, and it still leaves the basic money supply about $7bn above the upper limit of the Fed's target range. At the same time, the M2 and M3 measures are also growing much faster than the central bank planned.

Despite this rapid expansion in the monetary aggregates, many analysts have recently been arguing that the Fed has been maintaining a relatively neutral stance on credit, partly because it would not want to see interest rates go higher and thereby give even more support to the dollar. But a combination of tightness in the Federal Funds rate this week, and an unexpectedly large increase in bank borrowings at the Fed's discount window, have given rise to increasing uncertainty.

In the week ending Wednesday, borrowings at the discount window, where the banks are forced to go when the Fed restricts liquidity in the money markets, jumped to $862m against an average of $419m in the previous week. These figures suggested a "slightly tighter credit policy," said Mr William Sullivan, of Dean Witter Reynolds, while Mr Philip Braverman, of Briggs Schaedle, said: "The evidence is far from definitive, but it suggests that the Fed has tightened sufficiently to keep the Funds rate within an 8½ per cent to 8¾ per cent range."

Some market economists argue caution in reading too much into one week's figures, but corporate treasurers are not waiting for these conflicting views to be resolved. With the Treasury due to announce a big $17bn to $18bn quarterly refunding programme next week, companies have been rushing to bring new issues to the market.

The largest of these new offerings came from Texaco Capital, which filed for a mammoth $1bn issue of guaranteed debt securities backed by its parent company. The next most sizeable was a $500m filing from Merrill Lynch for medium-term notes with maturities between nine months and 10 years. Other issues include a $200m offering from Household Finance Corporation of two-year extendible notes with a final maturity in April 1995, and a $200m offering from Wells Fargo and Co. of 15-year subordinated, floating rate notes which are callable after two years, and pay ⅛ point over Libor.

Terry Dodsworth

U.S. MONEY MARKET RATES (%)

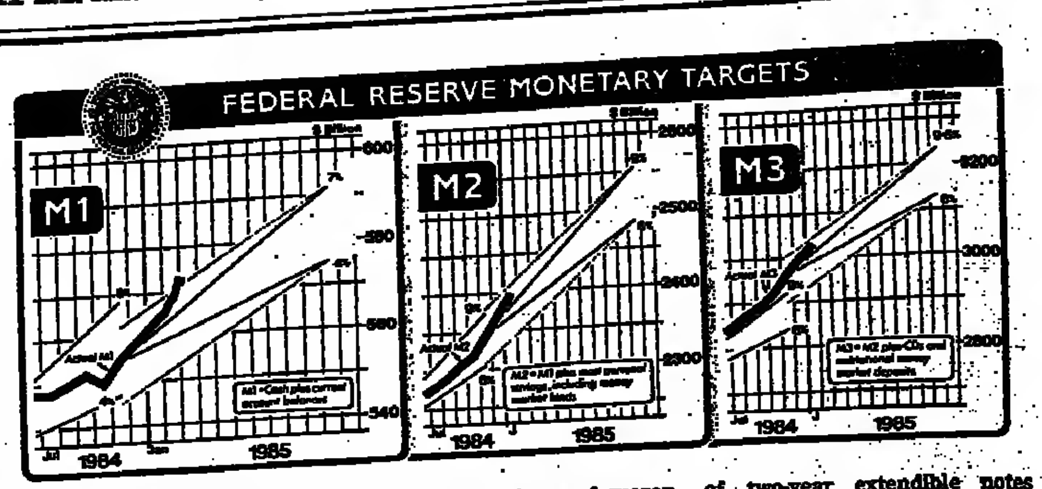
	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.76	8.47	8.47	11.77	7.82
Three-month Treasury bills	8.42	8.56	8.18	10.77	7.58
Six-month Treasury bills	8.89	8.85	8.28	10.83	7.57
Three-month prime CDs	9.16	9.10	8.62	11.90	8.06
30-day Commercial Paper	8.85	8.90	8.40	11.38	7.69
90-day Commercial Paper	9.10	9.05	8.60	11.40	7.90

U.S. BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	98⅝	−1	11.91	11.70	11.28
20-year Treasury	96⅝	−1⅛	12.12	11.86	11.60
30-year Treasury	98⅝	−1⅛	11.85	11.71	11.46
New 10-year "A" Financial	n/a	−1⅛	12.80	12.30	12.00
New "AA" Long utility	n/a	−1	13.00	12.87	12.52
New "AA" Long industrial	n/a	−1	12.75	12.62	12.27

Source: Salomon Bros (estimates).

Money Supply: In the week ended March 4 M1 fell by $400m to $572.4bn. In February M2 rose by $21.3bn to $2,420.6bn, and M3 rose by $20.6bn to $3,042.7bn.



UK GILTS

Investors wait for Budget fine print

IT IS hardly an action-replay of 1984. The run-up to the Budget last year was characterised by a burst of euphoria in the gilt-edged market, later extinguished in a summer of industrial disputes.

The market last week—with yields on long-dated stocks sticking resolutely at 10.8 per cent and on shorts at 12 per cent—showed just how cautious investors have become since the acclaim which greeted Mr Lawson's first performance.

And the Chancellor could hardly have expected to be going into his second Budget tomorrow with short-term interest rates 5 points higher than a year earlier.

There were, however, brief flurries of excitement which must have raised Mr Lawson's hopes that a gilt-edged rally has been delayed rather than ruled out.

On Monday the City convinced itself that the traditional pre-budget cut in base rates was a certainty and the Bank of England found no problem in selling around £800m of gilt-edged stock.

But the announcement of a higher-than-expected (though perfectly respectable) 1 per cent increase in sterling M3 last month, quickly persuaded the markets that any base rate cut could come only after Mr Lawson's statement.

The "wait-and-see" atmosphere was underlined by the Bank's decision to hold back from any new funding on Friday afternoon, when most in the market had expected at least some additional tranches of existing stock.

The unusually tight security surrounding this year's measures have served to heighten the tension, particularly in relation to possible changes in capital gains or pension fund taxation which would impinge directly on the gilt-edged market.

Brokers Grieveson Grant, for example, estimates that the introduction of a 10 per cent tax on pension fund income could imply a fall of about 5 points in the price of conventional long-dated gilts, although the index sector could benefit.

The general view on the public borrowing and monetary fronts is that the market is discounting a 1985-86 public sector borrowing requirement of £7bn or slightly less and a target range for sterling M3 growth of 5 to 9 per cent.

But the catchphrase in the market last week was "robust arithmetic," with investors at least as concerned with the viability of the assumptions behind the borrowing target as the figure itself.

They will also be watching closely to see whether Mr Lawson indicates that he intends to keep the money supply around the mid-point of its target range, rather than be satisfied with it bumping along the top.

If the Chancellor does jump the budget hurdles, however, there are many in the market who believe that the outlook for gilt-edged stocks is promising, particularly if the problems in Ohio keep the dollar subdued.

The balance of expectation in the City is that there should be a small post-budget cut in base rates.

The Bank's heavy funding last week also holds out the possibility of a good money supply figure for the banking month of March which ends on Wednesday.

For that brighter outlook to feed through to gilt-edged prices, however, Mr Lawson will have to do a good job of persuading the market that no risks will be taken with the exchange rate and inflation.

Philip Stephens

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AHFC O/S Fin 11⅝ 94	[illegible]	[illegible]	[illegible]	12.38
Amer Savings 12 89	[illegible]	[illegible]	[illegible]	12.53
Amer Savings 12⅞ 89	[illegible]	[illegible]	[illegible]	12.34
Asian Dev Bk 11⅛ 88	[illegible]	[illegible]	[illegible]	12.48
Australia 11⅜ 90	[illegible]	[illegible]	[illegible]	11.40
Australia 11⅝ 95	[illegible]	[illegible]	[illegible]	12.01
Australia 11⅞ 88	[illegible]	[illegible]	[illegible]	11.98
AIDC 11 90	[illegible]	[illegible]	[illegible]	11.90
Austria 15⅛ 86	[illegible]	[illegible]	[illegible]	11.97
Bk America 12 87	[illegible]	[illegible]	[illegible]	11.90
Bk Nova Scotia 13⅞ 87	[illegible]	[illegible]	[illegible]	12.36
Bank of Tokyo 13⅞ 94	[illegible]	[illegible]	[illegible]	12.54
Bank of Tokyo 13⅞ 89	[illegible]	[illegible]	[illegible]	12.42
Bque Nat Paris 13⅞ 88	[illegible]	[illegible]	[illegible]	12.54
Bqe Nat Paris 14⅞ 90	[illegible]	[illegible]	[illegible]	12.93
BFCE 10 88	[illegible]	[illegible]	[illegible]	11.53
Br Col Hydro 11⅝ 93	[illegible]	[illegible]	[illegible]	12.30
Br Col Hydro 12 14	[illegible]	[illegible]	[illegible]	13.09
Br Col Hydro 12⅝ 13	[illegible]	[illegible]	[illegible]	13.06
Bittoil Fin 11⅜ 89	[illegible]	[illegible]	[illegible]	12.38
Canada 10⅞ 88	[illegible]	[illegible]	[illegible]	11.53
Carls Computer 9⅞ 89	[illegible]	[illegible]	[illegible]	−0.38
CCCE 12⅞ 95	[illegible]	[illegible]	[illegible]	12.66
Citicorp O/S 10⅜ 90	[illegible]	[illegible]	[illegible]	11.32
Citicorp O/S 11⅜ 88	[illegible]	[illegible]	[illegible]	12.52
Citicorp O/S 11⅞ 88	[illegible]	[illegible]	[illegible]	12.47
Citicorp 11⅜ 90	[illegible]	[illegible]	[illegible]	12.29
Citicorp O/S 12 87	[illegible]	[illegible]	[illegible]	11.88
Citicorp O/S 12⅞ 88	[illegible]	[illegible]	[illegible]	13.69
Citicorp O/S ⅞ 94	[illegible]	[illegible]	[illegible]	12.87
CNCA 13⅞ 91	[illegible]	[illegible]	[illegible]	11.82
Coastal Int 12⅞ 88	[illegible]	[illegible]	[illegible]	12.78
Camp Bancaria 13⅞ 90	[illegible]	[illegible]	[illegible]	12.17
Comalco 12⅞ 91	[illegible]	[illegible]	[illegible]	12.64
Creditanstalt 13⅞ 89	[illegible]	[illegible]	[illegible]	12.27
Credit Suisse 12⅞ 92	[illegible]	[illegible]	[illegible]	8.21
Dai-Ichi Kangyo 12⅞ 90	[illegible]	[illegible]	[illegible]	12.54
Dart and Kraft	[illegible]	[illegible]	[illegible]	12.94
Denmark 11⅞ 90	[illegible]	[illegible]	[illegible]	12.87
Denmark 12⅞ 92	[illegible]	[illegible]	[illegible]	12.73
Denmark 13 91	[illegible]	[illegible]	[illegible]	12.25
Denmark 13⅞ 91	[illegible]	[illegible]	[illegible]	12.64
Denmark 13⅞ 88	[illegible]	[illegible]	[illegible]	12.49
Denmark 14 91	[illegible]	[illegible]	[illegible]	12.00
Du Pont Canada 13⅞ 91	[illegible]	[illegible]	[illegible]	12.52
Digital Equip 11⅝ 89	[illegible]	[illegible]	[illegible]	12.46
Dutch St Mines 11⅜ 91	[illegible]	[illegible]	[illegible]	11.13
Exportfinans 11⅞ 89	[illegible]	[illegible]	[illegible]	11.98
Elec de France 9⅞ 88	[illegible]	[illegible]	[illegible]	12.35
Elec de France 10 88	[illegible]	[illegible]	[illegible]	12.32
Elec de France 11⅞ 93	[illegible]	[illegible]	[illegible]	11.63
Elec de France 11⅞ 90	[illegible]	[illegible]	[illegible]	12.60
Elec de France 12⅞ 87	[illegible]	[illegible]	[illegible]	11.51
EEC 10⅞ 86	[illegible]	[illegible]	[illegible]	12.22
EEC 11 87	[illegible]	[illegible]	[illegible]	12.38
EEC 11 95	[illegible]	[illegible]	[illegible]	12.41
EEC 12 93	[illegible]	[illegible]	[illegible]	12.26
EEC 12 93	[illegible]	[illegible]	[illegible]	12.58
Euro Inv Bk 11⅞ 90	[illegible]	[illegible]	[illegible]	12.46
Euro Inv Bk 11⅞ 91	[illegible]	[illegible]	[illegible]	12.14
Euro Inv Bk 11⅞ 93	[illegible]	[illegible]	[illegible]	10.57
Euro Inv Bk 12⅞ 90	[illegible]	[illegible]	[illegible]	11.73
EDC 9⅞ 88	[illegible]	[illegible]	[illegible]	11.71
EDC 10⅞ 88	[illegible]	[illegible]	[illegible]	11.66
EDC 10⅞ 90	[illegible]	[illegible]	[illegible]	11.90
EDC 11⅞ 90	[illegible]	[illegible]	[illegible]	11.51
EDC 11⅞ 87	[illegible]	[illegible]	[illegible]	12.08
EDC 12 89	[illegible]	[illegible]	[illegible]	12.28
EDC 12⅞ 87	[illegible]	[illegible]	[illegible]	11.50
EDC 13 90	[illegible]	[illegible]	[illegible]	11.89
Export & Import 13⅞ 91	[illegible]	[illegible]	[illegible]	12.20
Farm Cred Cpn 11⅞ 93	[illegible]	[illegible]	[illegible]	[illegible]
Finland 9⅞ 88	[illegible]	[illegible]	[illegible]	[illegible]
Finland 11⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Finland 15⅞ 87	[illegible]	[illegible]	[illegible]	[illegible]
Finnish Export 13⅞ 87	[illegible]	[illegible]	[illegible]	[illegible]
Firsted Mich 1 13⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Florida Fed 12⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
G. E. Credit 96	[illegible]	[illegible]	[illegible]	[illegible]
General Elec 9⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
Gen Elec Cred 11 91	[illegible]	[illegible]	[illegible]	[illegible]
Gen Motors Ac 11⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Gen Motors Ac 12⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Gen Motors Ac 13 86	[illegible]	[illegible]	[illegible]	[illegible]
GZB 14 91	[illegible]	[illegible]	[illegible]	[illegible]
Gtr Vienna 13⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
GTE Finance 12 98	[illegible]	[illegible]	[illegible]	[illegible]
Gulf Oil 10⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]
Gulf Oil 12⅞ 87	[illegible]	[illegible]	[illegible]	[illegible]
Hall Air Fin 12⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
IBM Credit 13⅞ 87	[illegible]	[illegible]	[illegible]	[illegible]
IBM 12⅞ 93	[illegible]	[illegible]	[illegible]	[illegible]
IC Industries 11⅞ 88	[illegible]	[illegible]	[illegible]	[illegible]
Ind Bk Japan 11⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Ind Bk Japan 11⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
Ind Bk Japan 11⅞ 90	[illegible]	[illegible]	[illegible]	[illegible]
IADB 12⅞ 93	[illegible]	[illegible]	[illegible]	[illegible]
Int Bk Rc Dv 11⅞ 90	[illegible]	[illegible]	[illegible]	[illegible]
Int Bk Rc Dv 12 93	[illegible]	[illegible]	[illegible]	[illegible]
Int Paper 12 91	[illegible]	[illegible]	[illegible]	[illegible]
Int Stand Elec 87	[illegible]	[illegible]	[illegible]	[illegible]
Int Stand Elec 12 96	[illegible]	[illegible]	[illegible]	[illegible]
ITT 11⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Japan Airlines 12⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]
Japan Dev Bk 11⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
Kyowa Fin HK 12⅞ 00	[illegible]	[illegible]	[illegible]	[illegible]
Long Term Cred 11 89	[illegible]	[illegible]	[illegible]	[illegible]
Long Term Cred 11 88	[illegible]	[illegible]	[illegible]	[illegible]
Long Term Cred 11⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Long Term Cred 12 93	[illegible]	[illegible]	[illegible]	[illegible]
Long Term Cred 12⅞ 90	[illegible]	[illegible]	[illegible]	[illegible]
Macy R. H. 11⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
McDonnld Fin 11⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]
Minebea 6⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Mitsubishi 5 88	[illegible]	[illegible]	[illegible]	[illegible]
Mitsubishi Co 12⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
Mitsubishi Gas Ch 6⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Mitsui Eng 7⅞ 88	[illegible]	[illegible]	[illegible]	[illegible]
Mitsui Tst Fin 12 91	[illegible]	[illegible]	[illegible]	[illegible]
Montreal City 12⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
Montreal Urban 12 93	[illegible]	[illegible]	[illegible]	[illegible]
Mgn Guaranty 12⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]
Mount Isa Fin 13⅞ 87	[illegible]	[illegible]	[illegible]	[illegible]
Ned Gasunie 11⅞ 90	[illegible]	[illegible]	[illegible]	[illegible]
Ned Gasunie 11⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
Newfoundland 13 91	[illegible]	[illegible]	[illegible]	[illegible]
Nippon Crd Bk 13⅞ 88	[illegible]	[illegible]	[illegible]	[illegible]
Nippon Tel Tel 11⅞ 19	[illegible]	[illegible]	[illegible]	[illegible]
Nippon Tel Tel 13⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]
Nissho-Iwai 6⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Nomura 6⅞ 99	[illegible]	[illegible]	[illegible]	[illegible]
Nordic Inv Bk 14 91	[illegible]	[illegible]	[illegible]	[illegible]
Nordic Inv Bk 11⅞ 90	[illegible]	[illegible]	[illegible]	[illegible]
Nova Scotia 11⅞ 90	[illegible]	[illegible]	[illegible]	[illegible]
Nova Scotia 11⅞ 88	[illegible]	[illegible]	[illegible]	[illegible]
Osterr Post 12⅞ 86	[illegible]	[illegible]	[illegible]	[illegible]
Obayashi-Gumi 7⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Ontario Hydro 11⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]
Ontario Hydro 11⅞ 88	[illegible]	[illegible]	[illegible]	[illegible]
Ontario 12⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Gas & El 12 91	[illegible]	[illegible]	[illegible]	[illegible]
Penney J. C. 11⅞ 93	[illegible]	[illegible]	[illegible]	[illegible]
Penney J. C. 12⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
Phillips Petrol 14 89	[illegible]	[illegible]	[illegible]	[illegible]
Post-Och Kred 12 88	[illegible]	[illegible]	[illegible]	[illegible]
Post-Och Kred 13⅞ 87	[illegible]	[illegible]	[illegible]	[illegible]
Quebec Hydro 11⅞ 92	[illegible]	[illegible]	[illegible]	[illegible]
Quebec Hydro 12 94	[illegible]	[illegible]	[illegible]	[illegible]
Quebec Prov 12⅞ 93	[illegible]	[illegible]	[illegible]	[illegible]
Quebec Prov 12⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]
Quebec Prov 13 13	[illegible]	[illegible]	[illegible]	[illegible]
RTZ 11⅞ 93	[illegible]	[illegible]	[illegible]	[illegible]
Royal Bk Scot 11⅞ 93	[illegible]	[illegible]	[illegible]	[illegible]
Rural Bk Aust 12 91	[illegible]	[illegible]	[illegible]	[illegible]
Sanwa Int-Fin 12⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
Saskatchewan 10⅞ 90	[illegible]	[illegible]	[illegible]	[illegible]
Saskatchewan 15 92	[illegible]	[illegible]	[illegible]	[illegible]
Saskatchewan 11⅞ 88	[illegible]	[illegible]	[illegible]	[illegible]
Saskatchewan 16 89	[illegible]	[illegible]	[illegible]	[illegible]
Saskatchewan 10⅞ 96	[illegible]	[illegible]	[illegible]	[illegible]
Scot Int Fin 12⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
Sears Roebuck 10⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Sears O/O Fin 98	[illegible]	[illegible]	[illegible]	[illegible]
Sears Roebuck 11⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
Sears Roebuck 11⅞ 93	[illegible]	[illegible]	[illegible]	[illegible]
Soc Pacific 12 92	[illegible]	[illegible]	[illegible]	[illegible]
Shearson/Amex 12⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]
Shell (Canada) 14⅞ 92	[illegible]	[illegible]	[illegible]	[illegible]
Shell (Canada) 15⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
Standard Chart 11⅞ 94	[illegible]	[illegible]	[illegible]	[illegible]
Statoil 12 88	[illegible]	[illegible]	[illegible]	[illegible]
Sumitomo Fin 12⅞ 91	[illegible]	[illegible]	[illegible]	[illegible]
Sweden 12⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Swedish Export 11⅞ 89	[illegible]	[illegible]	[illegible]	[illegible]
Taiyo Kobe 12 00	[illegible]	[illegible]	[illegible]	[illegible]
Texaco 10⅜ 90	200	92⅜	+0⅝	12.32
Texaco 10⅜ 88	200	92⅞	−0¼	11.86
Texaco Capital 13½ 89	200	103½	0	12.35
Texas Instr 11⅞ 91	150	98	+0¼	12.37
Tokai Asia 12⅝ 91	100	99⅜	+0⅝	12.45
Tokyo Electric 6½ 89	70	92⅞	+0¼	8.92
Tokyo Electric 13⅝ 89	100	106⅝	+0¼	11.43
Toronto-Dom 12⅝ 89	50	100⅜	+0⅝	12.48
UBS 12½ 91	100	99⅜	+1	12.40
Volvo B 93	70	104⅞	+2⅞	7.34
Warner-Lambert 10⅜ 90	100	94⅞	+0⅛	11.67
West LB 11⅞ 00	100	96⅜	−1⅜	12.70
Weyerhaeuser 11⅜ 90	50	98⅜	+0⅝	12.39
Yasuda Trust 12⅜ 88	100	100	+0⅛	12.36

FLOATING RATE NOTES	Issued	Price	Chg. on week	C.cpn
Arab Bank Cpn ⅛ 95	100	100½	+0⅛	12⅛
BAII ¼ 91	00	98⅜	−0⅛	12
Banca Lavoro ⅛ 91	100	100⅞	0	10 7/16
Ban di Roma 3/16 92 CU	75	100	0	10 5/16
Banco Hispano ⅛ 95	100	99⅜	−0⅛	11 3/16
Bankers Tr NY ⅛ 94	200	100¼	0	9 15/16
Bank of Greece ⅛ 94	150	96⅞	0	9⅛
Bank of Montreal ⅛ 94 £	100	100	+0⅛	10⅛
Bank of New York ⅛ 96	75	100	0	11 3/16
Bqe Nat Paris ⅛ 88	250	100⅛	0	8 13/16
Bqe Nat Paris ⅛ 89	250	100⅜	0	10
Bqe Nat Paris ¼ 91	125	100⅛	−0⅛	12 15/16
Bqe Nat Paris ⅛ 96	250	100	+0⅛	9⅛
Barclays O/B ⅛ 90	100	101	0	0⅛
Barclays O/S ⅛	600	100⅛	0	10 15/16
BBL ¼ 95	100	100⅛	+0⅛	9⅞
Bqe Nat Paris ¼ 89	400	100⅞	0	10 7/16
BBL ⅛ 99	100	100⅛	−0⅛	11 11/16
BFCE ⅛ 87	400	99⅞	0	9 15/16
BFCE ⅛ 88	125	100⅛	0	10⅞
BFCE ⅛ 88	500	100	0	9⅞
BFCE ⅛ 89	600	100⅛	−0⅛	10 7/16
CEPME ⅛ 88 £	100	100	+0⅛	10⅛
Citicorp O/S ⅛ 91 £	100	99¼	−0⅛	13 13/16
Caisse Nat Tel ⅛ 91	250	100⅛	0	10⅛
Creditanstalt 3/16 89	150	99⅞	−0⅛	9 13/16
Credit Lyon ⅛ 96	300	100½	0	9⅞
Cred National ⅛ 95 £	100	100	0	9⅞
Dai-Ichi Kangyo ⅛ 95	150	100⅛	0	10 3/16
Denmark ⅛ 00	250	100¼	0	9 7/16
Denmark 0 89	200	99⅜	+0⅛	9 5/16
Denmark 3/16 90	500	100½	0	11⅛
Dresdner Bank ⅛ 93	400	101⅛	0	11⅛
Eldorado Nuke 0 89	100	100⅛	0	9 15/16
Elec de France ¼ 95	300	100	0	9½
Elec de France ⅛ 99	400	100½	−0⅛	10
EEC ⅛ 90	2bn	100	0	9 5/16
ENEL ⅛ 93 £	100	99⅞	0	10¼
Exterior Intl ⅛ 89	125	100⅛	0	9 5/16
Ferro del Stat ⅛ 99	250	100⅛	+0⅛	10⅞
Fiat Finance ⅛ 94	100	99⅜	−⅛	12
First Aust Bank ⅛ 92	50	99⅜	−0⅛	8⅞
First Chicago ⅛ 94	100	100	0	9 7/16
Ford Motor Cr ⅛ 91	200	99¼	−0⅛	9 15/16
Genfinance ⅛ 87	100	100¼	0	11
Genfinance ¼ 92	100	100¼	0	9 5/16
GZB ⅛ 91	40	100¼	0	9⅞
GZB ¼ 92	60	100¼	0	9⅞
Gotabanken ⅛ 94	50	99⅜	0	10⅛
GW O/S Fin ⅛ 94	150	99⅜	+0⅛	12
Grindlays ⅛ 94	100	100½	0	8⅞
Ind Bk Japan ⅛ 88	50	101¾	−0⅛	10⅛
INI 3/16 00	100	100¼	−0⅛	11 13/16
Interfirst Tex ⅛ 89	100	98⅜	−1⅛	9⅛
Int Bk Rec Dev 11/32 89	250	99⅛	−1	8⅞
Ireland ⅛ 93 £	90	100¼	0	14 3/16
Ireland 3/16 94	300	100¼	+0⅛	0⅛
Italy ⅛ 99	500	100⅛	0	10 5/16
Kleinwort Ben ¼ 96	100	100⅛	0	12 7/16
Lloyds Eurofin ⅛ 92	100	100⅛	0	9 15/16
Malaysia ⅛ 93	850	100	0	9 5/16
Marine Midland ⅛ 94	125	100⅛	0	9 7/16
Marine Midland ⅛ 96	125	100	0	9 5/16
Magal Fin 3/16 94 CU	100	99	0	9 5/16
Midland Intl ⅛ 89	125	100⅛	−0⅛	9 5/16
Midland Ind 0 91	160	100⅛	−0⅛	11
Midland Intl ⅛ 88	200	100	0	10 7/16
Mitsui Fin ⅛ 98	100	100½	0	10⅛
Morgan Grenfell ⅛ 94	50	99⅞	+0⅛	8
Mtg Bk Dnmark 3/16 94 £	60	100	0	10⅛
Nat Bk Canada ⅛ 91	50	100	0	9⅛
Nat West ¼ 90	150	100⅛	0	9 5/16
Nat West Fin ⅛ 91	125	100½	−0⅛	9 5/16
Nat West Bank ⅛ 92	100	101⅛	0	10⅛
Nat West Bank ⅛ 94	100	100¼	0	10⅛
Nat West Fin ⅛*	365	100⅞	+0⅛	10⅛
Neste Oy ⅛ 94	100	100	0	10
New Zealand ⅛ 87	350	100⅛	0	11⅞
NZ Steel Corp ¼ 92	300	100⅞	0	9½
Nippon Cred Bk ⅛ 90	60	100¼	0	9⅛
Oster Ln Bk ⅛ 99	100	100⅛	−0⅛	11 11/16
Offshore Min ⅛ 88	100	100¼	+0⅛	9 5/16
Offshore Min ⅛ 91	100	100¼	0	8 13/16
Oko Bank ⅛ 92	90	99⅜	0	9⅞
Pirelli Fin ⅛ 94	50	99½	0	10⅛
Portugal ¼ 92	100	99⅛	0	12
Quebec Hydro ⅛ 94	200	100	0	9 5/16
Queensld Coal ⅛ 86	350	100⅛	0	10 5/16
Queensld Coal ⅛ 85	46	100½	0	10 5/16
Renfe ¼ 91	100	100⅞	0	12⅛
Royal Bk Scot ¼ 94	75	100½	0	9 5/16
Sanwa Intl ⅛ 92	150	100	0	9 7/16
Scandivia Fin ⅛ 93	70	99⅞	+1⅛	9⅛
Scot Intl Fin ⅛ 92	100	100⅛	0	11 11/16
SEAT ⅛ 93	100	100	0	9 5/16
Skopbank ¼ 94	75	99	0	0⅛
SNCF ¼ 93 £	75	100¼	+0⅛	12⅛
Soc Generale ⅛ 90	200	100⅛	0	10⅛
Soc Gen (⅛%) ¼ 95	250	101⅛	−0⅛	10 7/16
Soc Generale ⅛ 94	250	100⅛	0	12 5/16
Spain ⅛ 93	200	100⅞	0	10 5/16
Spain ⅛ 97	250	100⅛	0	10
Standard Chart ⅛ 90	100	100⅛	−0⅛	9 13/16
Standard Chart ¼ 90	75	100⅛	0	10 11/16
Standard Chart ⅛ 91	100	100⅛	0	10⅛
Standard Chart ⅛ 94	200	100⅛	0	9½
Sumitomo Tst ⅛ 94	100	100⅛	+0⅛	9 5/16
Sweden ⅛ 91	100	100⅛	0	8 13/16
Sweden ¼ 03	1bn	100⅛	0	10 7/16
Sweden ⅛ 24	500	99⅜	−0⅛	11 11/16
Sweden ⅛*	750	100	+0⅛	9 7/16
Tokai Asia ⅛ 99	150	100¼	0	9 5/16
Toyo Tst Asia ⅛ 98	100	100⅛	+0⅛	9 13/16
TVO Power ⅛ 04	100	98½	0	10
Union Bank-Norw ⅛ 99	60	98½	0	9 5/16
Wells Fargo 3/16 96	50	99⅛	+0⅛	9 7/16
Williams & Glyns ⅛ 91	75	100⅛	0	12⅛
Yorkshire Int ⅛ 94 £	75	99⅜	0	10⅛

CONVERTIBLE BONDS	Issued	Price	Chg. on week	Prem.
Ajinomoto 3 99	120	87¼	+1	
Ajinomoto 5⅛ 96	40	110⅛	+1⅛	7.51
Best Denki 6⅞ 87	15	146½	−0⅛	7.91
Bridgestone Tire 5½ 96	70	95⅜	−0⅛	−0.92
Canon 6⅜ 94	80	283⅛	−0⅛	−7.36
Canon 6⅛ 95	00	205⅛	+2⅛	−1.37
Canon 7 97	50	232⅛	+9⅞	−2.25
BBC Brown Bov 4¼ 99	57	92	+0¼	1.88
Bow Valley 8 89	40	118⅛	+0½	83.79
Comsat Intl 7¾ 98	110	81⅞	+1	27.04
Daiwa Secs 5½ 98	00	166	+5⅛	−0.68
Dev Bk Sing 5½ 98	70	74	+1	0.56
Eldors 11⅛ 94	160	106½	−0⅞	104.00
Elektrowatt 5 88	52	00⅛	−0⅛	12.23
Fanuc 3¾ 89	80	172⅛	+5	0.16
Fujitsu 3 99	190	93⅛	+1⅛	7.16
Iotec Inc 3 89	90	75	−1⅛	−2.42
Konishiroku 4 98	60	91½	−1⅛	3.38
Mitsubishi H 4⅛ 99	100	93½	+2	−4.69
Moet-Hennessy 7 93	90	102⅛	+0½	12.56
Murata Mfg 3½ 99	100	120⅛	+1⅛	0.87
Murata Mfg 3½ 00	100	117⅛	+1⅛	1.57
Nippon Oil 3¾ 99	50	78⅛	+1⅞	9.46
Ono Pharm 3¾ 98	00	107⅞	+3⅞	−4.53
Soc Gen Surv 4½ 94	81	86	0	146.16
Sumitomo Corp 2⅞ 99	70	90⅛	+2	−1.75
Texaco Capital 11⅞ 94	1bn	100⅛	+0⅛	43.75
Texaco Capital 11⅛ 94	500	100⅛	+1	43.39
Usair Finance 7 98	90	106⅛	+0⅛	6.37
Yamanouchi 4 90	90	239½	−1⅛	−1.47

YEN STRAIGHTS	Issued	Price	Chg. on week	Yield
Asian Dev Bank 6⅜ 88	15	96	+0⅛	7.06
Asian Dev Bk 7⅛ 94	15	100½	+0⅛	7.29
Asian Dev Bk 8¼ 91	15	103⅛	+0⅛	7.46
Asian Dev Bk 8⅛ 92	15	105⅛	+0½	7.56
Australia 8½ 91	15	104⅛	+0⅛	7.59
Australia 8⅞ 92	15	104½	+0½	7.80
Denmark 8⅛ 92	15	103⅛	+0½	7.57
Eurofima 6½ 86	10	100	0	6.48
Eurofima 7⅛ 94	10	101	+0½	7.22
Eurofima 8⅛ 88	10	103⅛	−0⅛	7.18
Euro Invest Bk 7⅛ 89	15	103	+0½	6.93
Euro Invest Bk 8⅛ 92	15	104⅛	+0⅛	7.46
Finland 8⅛ 87	15	103½	+0⅛	6.72
Finland 8⅛ 89	15	103⅛	+0⅛	7.41
IADB 7½ 94	15	101⅛	+0⅛	7.29
IADB 8⅞ 91	15	106½	+0⅛	7.65
IADB 7⅞ 93	15	102⅛	+0½	7.50
New Zealand 7⅛ 90	15	99⅞	+0⅛	7.14
New Zealand 7⅛ 89	15	102	+0⅛	7.07
New Zealand 8⅛ 87	15	103⅛	+0⅛	6.76
Sweden 8½ 90	15	103⅛	+0⅛	7.61
World Bank 7 94	20	97⅞	+0⅛	7.32
World Bank 7⅛ 93	20	101⅞	+0⅛	7.32
Int Bk Rec Dev 8 93	20	104⅛	+0⅛	7.28
World Bank 8⅛ 92	20	105½	+0½	7.34
World Bank 8⅛ 91	20	107⅛	+0⅛	7.07

LUXFR STRAIGHTS	Issued	Price	Chg. on week	Yield
Eur Coal & Steel 7⅛ 88	500	98⅛	+0⅛	8.98
Eur Coal & Steel 7⅛ 88	600	95⅛	0	9.21
Eur Coal & Steel 10⅛ 94	1bn	102	−0⅛	10.00
Euro Invest Bk 10½ 94	1bn	103⅛	−0⅛	9.92
Int Bk Rec Dev 10⅛ 89	1bn	104⅛	0	9.01

GUILDER STRAIGHTS	Issued	Price	Chg. on week	Yield
ABN 8 89	200	100⅞	+0⅛	7.71
ABN 7⅛ 88	150	100⅛	0	7.67
ABN 8⅛ 89	150	102⅛	−0⅛	7.77
Amro Bank 8 89	200	100½	+0⅛	7.85
Amro Bank 8⅛ 89	100	102⅛	+0⅛	7.94
Bk Mees & Hope 8⅛ 89	100	100⅛	0	8.06
Beatrice Foods 8⅛ 89	100	101⅛	−0⅛	7.81
C C Rabo 8 89	150	100⅛	+0⅛	7.90
C C Rabo 8 88	100	103⅛	+0⅛	7.80
Denmark 8½ 91	100	101⅛	0	8.22
Int Grand Elec 8½ 89	100	101⅛	−0⅛	7.99
Ned Midd Bank 8 88	100	103⅞	0	7.71
New Zealand 8⅛ 89	100	101	0	7.95

CANADIAN DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
Br Col Prov 12 93	100	97	+0⅛	12.56
Bqe L'Indosuez 14 91	75	103⅛	+0⅛	13.14
Br Col Munic 13½ 91	100	104	+0⅛	12.51
Br Col Tele 12⅛ 89	70	97⅛	+0⅛	13.04
Farm Cred Corp 12⅛ 90	75	100	+1⅛	12.20
Int Bk Rec Dev 12⅛ 90	75	100½	+0⅛	12.11
Montreal City 12½ 91	60	98⅞	+1⅛	12.50
Quebec Hydro 14 91	75	103½	+0⅛	13.11

ECU STRAIGHTS	Issued	Price	Chg. on week	Yield
Australia & NZ 10⅛ 91	00	100⅞	+0½	9.42
Oesterreich 10⅛ 93	100	102⅛	+0⅛	10.14
Cred National 11⅛ 91	60	105⅛	+0⅛	10.06
Denmark 10⅞ 91	75	104⅛	+1⅛	9.69
Ebco Intnl 10⅞ 89	55	103⅛	+0⅛	9.67
EEC 10½ 91	60	102	+0⅛	10.04
EEC 11 93	50	104¼	+0½	9.92
EEC 11⅛ 91	80	104⅞	+0⅛	10.14
EEC 11⅛ 93	70	105½	+0⅛	10.23
Euro Coal & Steel 8 94	60	106⅛	−0⅛	10.31
Euro Invest Bk 10⅛ 89	60	106⅛	+0⅛	8.61
Euro Invest Bk 10⅛ 94	100	105⅛	+1⅛	9.64
Euro Invest Bk 11½ 92	75	106⅛	+0⅛	9.88
Euro Invest Bk 11⅛ 93	00	105⅞	+0½	10.06
Euro Invest Bk 11⅛ 96	50	100	0	10.30
Gen Finance 11 90	70	105⅛	+1	8.70
Gte Finance 10⅞ 92	50	106⅛	+1⅛	8.51
Int Bk Rec Dev 10⅛ 88	100	106⅛	+1	8.39
Int Bk Rec Dev 11 93	50	106	+1⅛	9.92
Italian Treas 11⅛ 00	60	105⅞	+0⅛	10.22
Magal Finance 11⅛ 94	100	103⅛	+1⅛	10.00
Nippon Cred Bk 11 91	50	105⅛	+0⅞	8.75
Nordic Inv 6 94	60	105⅛	−0⅛	10.31
Post Och Kred 10⅞ 92	60	101⅞	+1	10.48
Royal Bk Can 10⅛ 89	99	107⅛	+2⅛	8.27
SNCI 10⅞ 94	60	103½	+0⅛	10.26
Swedish Export 11 89	58	102⅞	+0⅛	10.32
West LB 10⅞ 91	60	107⅛	+0⅞	8.23

AUSTRALIAN DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AIDC 12⅛ 90	42	98	−0½	12.68
G J Coles 13½ 89	25	100⅛	−0⅛	13.40
Nat Aust Bk 12½ 89	40	96⅛	−0⅛	13.79
PIBA 12⅞ 89	50	96	−1	13.73
State Bk NSW 12⅛ 89	40	96½	−1⅛	13.77
State Aust 13⅛ 87	24	99⅛	−0⅞	13.72

STERLING STRAIGHTS	Issued	Price	Chg. on week	Yield
Denmark 10⅛ 89	75	87	+0⅛	11.71
Europerat 11⅛ 92	00	99⅛	+0⅛	11.53
EEC 11½ 94	50	101⅞	+0½	11.11
EEC 11⅞ 93	50	101⅞	+0⅛	11.49
Euro Invest Bk 10⅛ 92	75	97⅛	+0⅛	11.34
FFI 10⅛ 93	00	97⅛	+0⅛	11.22
Finland 11⅞ 88	50	102⅛	+0⅛	10.83
IADB 11⅛ 91	60	98⅞	+0⅛	11.64
Int Bk Rec Dev 10⅛ 89	100	98⅛	+0⅞	11.17
Int Grand Elec 11⅛ 89	50	101	+0⅛	10.77
Inv In Indust 11⅛ 91	00	102½	+0⅛	10.93
Ireland 11⅛ 94	50	97⅛	+0⅛	11.87
New Zealand 10⅛ 89	150	98⅛	+0⅛	11.64
SNCF 11⅛ 94	60	99½	−0⅛	11.52
SNCF 11⅛ 89	30	100⅛	+0⅛	11.36

EQUITY WARRANTS	Expiry date	Price	Chg. on week	Prem.
Commerzbank	31/5/88	46	0	30.72
Ciba-Geigy Int £	1/11/93	300	+25	164.53
C Itoh	20/1/87	10	−32½	14.14
C Itoh DM	4/5/88	41	−2	14.41
Credit Suisse	31/5/86	10⅛	0	8.13
Degussa Int DM	2/5/93	132	0	28.41
Deutsche Bank DM	18/6/91	137	+7½	11.08
ICI Finance	1/6/90	372½	0	214.22
IC Industries	15/8/88	13½	+0⅛	83.81
Jusco	22/12/88	86⅛	+3⅛	54.03
Kayaba Ind	15/2/89	10	+0⅛	18.01
Minebea Co	20/2/88	33⅛	−1⅛	64.62
Mitsubishi Ch	20/1/87	53½	−0⅛	18.37
Mitsubishi Cp	7/11/88	12	−0⅛	21.42
Mitsui	10/12/87	20	−3	−3.22
Nippon Mining	17/3/89	82⅛	−0½	82.71
Nissho Iwai	1/2/89	6⅛	−0⅛	31.19
Nomura Sec	31/10/88	87	+10⅛	2.35
Omron Tateisi	31/3/89	14⅛	−1	44.97
Onoda Cement	10/4/88	44⅛	+4⅛	−5.44
Phillips Gloeil	15/7/88	15	0	6.39
Prudential 0/0	15/12/88	105	0	621.70
Seagram Comp	15/6/88	12½	−1	−27.13
Seino Trans	17/3/89	6⅛	−0⅛	28.79
Siemens West DM	31/5/90	282	0	65.48
Sumitomo Cons	24/3/89	43	−0⅛	47.83
Sumitomo Heavy	24/2/89	6	0	−4.16
Swiss Bk Corp	20/12/88	23⅛	−1⅛	12.77
Tokyo Electric	14/3/89	12½	−0⅛	16.78
Tokyo Sanyo	8/8/87	139	−0⅛	53.21
Toray Ind	5/3/87	14⅛	0	17.01
Veba Int	16/12/93	40½	0	24.39

BOND WARRANTS	Expiry date	Price	Chg. on week	Ex yield
Aetna Ins 11⅞ 91	14/2/88	12⅛	−1⅛	8.71
ANR Fin 15⅛ 89	15/9/87	75	+45	−2.10
Coca-Cola 11⅞ 91	28/11/88	29⅛	+1⅛	5.32
Commerzbk 11⅛ 89	17/7/88	46⅛	+1⅛	1.87
Denmark 11⅛ 93	15/12/88	12⅛	+1⅛	9.86
D Norsk Cr 11⅛ 91	1/2/88	8⅛	+0⅛	10.76
Dev Bk Sing 14⅛ 89	17/9/88	68	0	−0.83
Du Pont 13⅛ 89	25/8/86	39⅛	+2⅛	3.12
Eksportfinas 13⅛ 89	15/9/87	42⅛	−1⅛	2.14
Gen Elec 12⅛ 01	7/8/87	33⅛	+1⅛	5.61
IBM Credit 12 87	19/8/85	36⅛	+3⅛	−2.46
Inv In Inds 10½ 91	1/12/88	62⅛	−1	1.43
M Hanover 13⅞ 87	1/9/85	17⅛	0	4.86
McDonldn F 11⅛ 94	0/1/88	11⅛	+1	9.15
Morgan J P 10⅛ 90	16/8/87	7½	0	8.74
Nordic Inv Bk 11 90	15/11/87	7⅛	+0⅛	11.50
Oester Inbk 13½ 89	8/8/87	33⅛	+2⅛	4.08
Penny J C 10⅞ 90	15/10/87	7⅛	+0⅛	9.83
Post-O Kred 11⅛ 90	15/11/87	7⅛	+0⅛	10.11
Rvl B Scot 11⅛ 93	15/11/88	13⅛	+0⅛	9.78
Texaco 10⅛ 93	15/11/87	7⅛	−0⅛	3.93
Texaco Cap 13⅞ 92	1/9/87	31⅛	+2⅛	6.77
Thman-Brdt 13⅛ 91	29/8/85	30	+1	7.22
Weyerhaeuser 11 90	15/11/87	8⅛	+0⅛	6.78
Xerox 13⅛ 87	15/8/85	26⅛	+2⅛	1.02

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: U.S. dollars unless indicated. Margin above six-month offered rate († three-month; § above mean rate) for U.S. dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: U.S. dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

* Perpetual.

Closing prices on March 15

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

CORPORATE FINANCE

Fire-fighting over for Hongkong Land

TWO YEARS ago, in the wake of the Hong Kong property crash, not a few local analysts would have quoted poor odds on Hongkong Land's chances of surviving. Last week, Mr David Davies, the managing director, reported a return to profits, the restoration of debts to a "perfectly comfortable" level, and the revival of expansion plans.

"The period of fire-fighting is over," he said while unveiling attributable profits in 1984 of HK$50m (U.S.$6.4m) — modest on a turnover of HK$10.24bn, but impressive after losses in 1983 of HK$1.28bn.

Two other events last week gave glimpses into tha group's painstaking haul back towards corporate health — an interest rate swap agreement with the Bank of Tokyo to raise HK$100m, and a plan to raise HK$750m from shareholders through a preferred share offer. Both cap a two-year effort to bring debt back under control.

When property values slumped in Hong Kong in the autumn of 1982, Hongkong Land was hopelessly exposed. It had committed itself to major construction projects when the market had been at its peak, and when the market went into a free fall, few companies had more to lose. When prices steadied at about half their peak levels, the group faced the prospect of selling or renting space et a significant loss.

As debts surged towards a peak forecast at HK$16bn, Mr Bill Wavish, the group'a beleaguered finance director, trawled over 40 banks for support: "We knew we didn't have a lot of time before the doors began to close in our face," ha recalls. The HK$4bn syndication arranged with 13 banks just as the collapsa began was therefore a life-saver, lifting facilities to HK$20.7bn.

The first priority of making sure money was available had been met. Any remaining fears on this count were eliminated in January this year, when the group sold its 34 per cent stake in Hongkong Electric for HK$2.9bn. Mr Simon Keswick, the group chairman, described this sale as "a major step in the financial regeneration of the company." It reduced group debt by 20 per cent to less than HK$12bn "at a stroke."

The second priority — to make sure the cost of the money was not too variabla — was not so easily solved. Of the HK$16bn borrowed in 1983, only HK$3bn was medium-term money, and only HK$1bn was at fixed rates of interest. Political uncertainties over Hong Kong's future swept interest rates up to 30 per cent in September 1983, and 28 per cent in July last year.

"With our kind of dabt burden, we couldn't afford to roll over variable money at those kinds of rate," Mr Wavish said. "We urgently needed to get more medium-term money, and to get it at fixed rates."

Sinca then, Hongkong Land has privately arranged 15 interest rate swops worth HK1.3bn. The swop arranged last week through the Bank of Tokyo, which lifts the aggregate arranged to HK$1.4bn, was the first time a Hong Kong borrower had entered the local fixed-rate market in order to swap simultaneously for variable rate funds.

This "first" gives the Bank of Tokyo funds at ½ per cent below the Hong Kong interbank borrowed rate (Hibor), and gives Hongkong Land fixed-rate funds at 11.62 per cent. Soch manoeuvres — which will be repeated whenever the opportunity arises, according to Mr Wevish — have enabled tha group to keep average borrowing costs at 11.7 per cent over the last year in spite of the volatility of the capital markets.

The call on shareboldors to take up a preferred share offer intended to raise HK$750m would bave been impossihle a year ago, in the wake of annual losses of almost HK$1.3bn, and with the local stock markets beset with political uncertainty.

Even now, the offer bas had to be heavily sweetened. Dividends are guaranteed, even though ordinary shares currently receive a nominal 1 cent a year. Pasment is staggered over six months, and a detachable warrant has been tagged onto eacb preferred share, allowing those wbo take up the offer to buy one further share at any time up to 1991 at a fixed price. Even with all the sweeteners, tha HK$750m raised will be at an effective interest rate cost of less than 7 per cent.

While the group still has formidable problems to solve, Mr Davies can now claim that income is covering both recurrent and capital spending costs. He says debt will have fallen by the and of 1985 to a "perfectly comfortable" 72 per cent of group aquity. For the first time in three years, there is no question that the company will survive.

David Dodwell

Texas bank warns of profit fall

By William Hall in New York

TEXAS COMMERCE Bancshares, one of only two U.S. banks to enjoy a triple A debt rating, has announced that it expects its first quarter net income to fall by more than a third to around $30m, primarily because of higher loan losses on its energy lending business.

Until now Texas Commeree has been largely unaffected by the problems of the U.S. energy sector, which have forced many of its rivals in Dallas and Houston to report sharply lower profits and sharply higher non-performing loans. News that tha group was forecasting sharply lower profits for the first time in recent years depressed its share price by $3¼ to $36¾

The group increased its average loans in 1984 by more than a fifth, but by the end of the year there were already signs that its above-average profit growth rate was slowing. Net income for 1984 rose by 3 per cent to $183.3m, or $5.64 per share. The group is now forecasting first-quarter earnings per share of 92 cents compared with $1.41 per ahare in the sama quarter last year and $1.37 in the fourth quarter of 1984.

Texas's second biggest bank blames moderating loan growth, continuing pressures on net interest margins, and higher loan loss provisions for its profit setback. Loan loss provisions in the current quarter are expected to be about $45m, up from $12m in the same quarater last year and $30m in the final quarter of 1984.

Confidence at N. Telecom

SAN FRANCISCO—Northern Telecom, the Canadian telecommunications group, expects consolidated revenues and net earnings per common share to rise 20-25 per cent in 1985, Mr Edmund Fitzgerald, president and chief executive told analysts here. "These remain our targets and I am confident of them," he said. In 1984 the company earned C$333.9m (US$241m) or C$2.76 a share on revenues of C$4.38bn.

AP-DJ

INTERNATIONAL APPOINTMENTS

Bekaert chair for another grandson

BY PAUL CHEESERIGHT IN BRUSSELS

MR JEAN CHARLES VELGE, 55, grandson of Leon-Leandre Bekaert, who founded Bekaert the Belgian wire and steel cord company, is to take over as chairman—from another grandson.

Mr Velge takes up his new appointment in May and Baron Antoine Bekaert, also 55, steps down.

The Bekaert company is now the biggest independent group of its kind in Europe, and is one of the flagships of Flemish capitalism in Belgium. As such, it is under intense pressure to take a larger role in Flemish social, economic, and political affairs.

Baron Bekaert is already active in this area, and the family sees his move out, with the position of honorary chairman, and Mr Valge's move in as a natural division of responsibilities.

The two men have worked together in a sustained expansion of the group since the 1970s. Bekaert now has plants in 14 countries and a turnover of aome BFr 30bn ($445m) a year. Hitherto Mr Velge has been the chief executive offiecr.

A civil engineer by background, Mr Velge has spent all his working life in the Bekaert group. His mother was the daughter of the group founder.

The Bekaert-Velge interests remain the majority sharebolders in the group, but in recent years there has been an influx of management from outside. This is reflected in the appointment of Mr Karel Vinck, who joined Bekaert from Eternit, the aabestos sheeting group, two years ago, and now becomes chief executive officer in Mr Velge's place.

UGB plans to separate activities after $5.4m loss

BY MARY FRINGS IN BAHRAIN

UNITED GULF BANK (UGB), a Kuwaiti-controlled Bahrain offshore banking unit, was adversely affected in 1984 both by a poor performance by the Treasury department and by write-downs at United Gulf Investment Company (UGIC), its wholly-owned subsidiary.

The directors are seeking permission from the Bahrain Monetary Agency to separate UGB's banking and investment activities by forming a holding company with two independent operating subsidiaries.

UGB reported a consolidated loss of US$5.4m for the year, compared with a profit of $24.2m for 1983. Total shareholders' equity was reduced from $251.8m to $246.4m and assets declined from $1.29bn to $1.13bn.

The parent bank made a profit of $8.1m after bad debt provisions of $6.6m compared with $27.9m after provisions of $1.5m in 1983. But the investment company's previous deficit of $3.7m worsened to $13.4m, following a five-fold increase in provisions. Write-downs included $7m on listed Kuwaiti securities, which absorbed the whole 1983 provision of $2.8m, $5.1m on unlisted Kuwaiti securities, and $2m on U.S. venture capital investments.

Mr Mahmoud Al Nouri, the managing director, blamed a 50 per cent drop in operating profits at the bank mainly on the Treasury department, although some $33m-worth of Kuwaiti loans had been placed on a non-accrual basis during the course of the year.

Of this sum, $7.2m had been written off, another $18m was currently before the Kuwait Settlements Court, and the bank was left with $9m of well-secured debt. He said 57 per cent ($253m) of the $433m loan portfolio was in Gulf Co-operation Council countries, mainly Kuwait ($126m) and Saudi Arabia ($112m).

Turning to UGIC, Mr Al Nouri said the company had now cleaned up its balance sheet and would be concentrating on investments in the U.S. real estate and venture capital markets, and on the arrangement of debt security issues. It had just won a sole mandate for a $50m floating-rate note issue for an Arab bank. He said more details of the proposed issue would be available within a week or so.

Rand Daily Mail deficit hits SAAN

By Jim Jones in Johannesburg

FAILURE to stem the rising losses of the Rand Daily Mail (RDM) and lower profits from other publications combined to leave South African Associated Newspapers (SAAN) with an operating loss of R8.8m ($4.3m) in 1984. Operating profits before interest and tax were R9.6m in 1983. Turnover rose to R138.1m from R128.5m.

Mr Clive Kinsley, the managing director, has for some years forecast that the RDM's previously undisclosed but rising losses could be contained. However, Mr Kinsley now says that last year the RDM incurred a loss of R15m and that over the past 10 years its accumulated losses have been R45.5m.

Management says that the RDM cannot achieve profitability in an over-traded market. Last Friday SAAN announced that the newspaper is to cease publication on April 30.

A loss of 315 cents a share was made in 1984 against earnings of 380 cents in 1983. A final dividend has not been declared though an interim of 25 cents was paid. For 1983 a dividend total of 190 cents was paid.

Braniff still in the red but 'improving rapidly'

BY OUR NEW YORK STAFF

BRANIFF, the U.S. airline which was rescued from bankruptcy last March, lost $86.5m in its first year since reconstruction. However, the company says that its results in recent months have improved rapidly.

The airline, which has undergone several upheavals in its battle to keep flying in the face of fierce competition from its established rivals, made a $4.6m loss in the final quarter ended January 31. Mr Ron Ridgeway, the president, says that excluding unusual expenses, the fourth-quarter results reflected a gratifying improvement in the airline's performance and indicate thet "our new long haul, unrestricted low fares operating plan is working." The company, which has shrunk in size considerably since it returned to the skies, had a 63.7 per cent load factor in the latest quarter which compares with a 45.5 per cent average load factor in the 11 months to end January.

Arbed returns to the black

ARBED, the Luxembourg steel company in which the Grand Duchy's government has a minority stake, has announced a LuxFr645m ($9.5m) net profit for 1984, against a LuxFr2.4bn loss in 1983. The profit is the first for 10 years, our Financial Staff writes.

The company attributed the turnround to a recovery in exports, which helped increase sales by 18 per cent to LuxFr56.7bn. Beyond this, the company has begun to feel the benefits of financial and industrial restructuring. Capacity has been cut by nearly 1m tonnes a year from the 1980 level of 5.2m tonnes.

Operating profits were up almost 25 per cent to LuxFr10.5bn, an outcome which the company describes as the best ever achieved, even after the deduction of unspecified state subsidies. Cash flow increased to LuxFr5.9bn from LuxFr2.5bn.

S & P takeover prompts Smith to leave Pabst

Pabst Brewing announced over the weekend that Mr William F. Smith, its president and chief executive officer, and Mr John Brzezinski, its executive vice-president, had resigned effective on Friday. It gave no reason for the resignations, Reuter reports from Chicago.

Mr Smith said in an interview that his resignation was caused by the previously announced takeover of Pabst by S. & P. He said be has "some philosophic differences" with Mr Paul Kalmanovitz, S. & P's chairman. He would not be more specific about his relationship to Mr Kalmanovitz, but said "At this point, I thought it was better to leave the company."

Bear Stearns resignation

Mr Peter Ganschinietz bas resigned as managing director of Bear Stearns International, the London Eurobond sales, trading, and syndication operation of the Wall Street investment house, Reuter reports from New York.

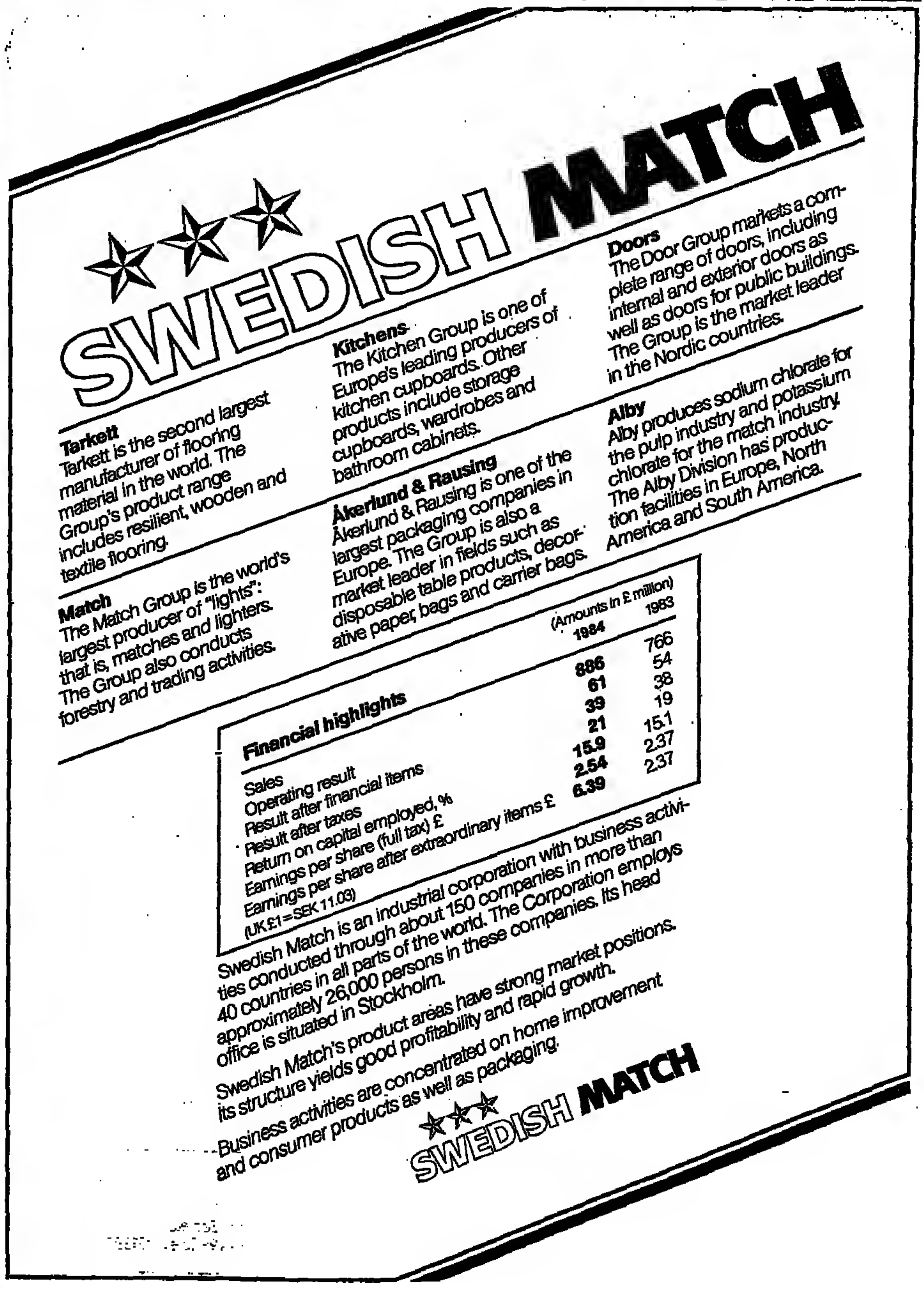
The firm said Mr Ganschinietz had left to pursue other opportunities. Until a successor is named, London fixed-income operations will be managed by Mr Frank Martucci and Mr Edward Rappa, general partners of the parent company responsible for fixed-income trading and sales respectively.

Anthony Solomon to advise BCI

BY STEWART FLEMING IN WASHINGTON

MR ANTHONY SOLOMON, former president of the Federal Reserve Bank of New York, has taken up an appointment as an adviser to the management board of Banca Commerciale Italiana (BCI), Italy's second largest commercial bank.

Mr Solomon retired from the New York Fed at the end of last year saying that he would be looking for a part-time post which would give him a public platform.



FINANCIAL TIMES STOCK INDICES

	Mar. 15	Mar. 14	Mar. 13	Mar. 12	Mar. 11	Mar. 8	1984/85 High	1984/85 Low	Since Compilation High	Since Compilation Low
Government Secs.	80.26	79.91	80.15	80.41	80.68	80.50	83.77	76.72	127.4	49.18
Fixed Interest	83.67	83.66	83.97	83.90	83.53	83.60	87.48	80.43	150.4	50.53
Ordinary	1002.5	990.1	987.4	990.4	989.2	986.1	1024.6	755.3	1024.3	49.4
Gold Mines	479.9	485.9	484.1	481.7	476.5	474.9	711.7	439.5	734.7	43.5
FT-Act All-Share	630.16	625.63	624.78	625.66	623.09	619.40	630.10	464.84	630.16	61.92
FT-SE100	1309.9	1299.7	1295.2	1300.0	1290.5	1288.5	1309.9	986.9	1309.9	986.9

UK COMPANY NEWS

Plantation investment trust in £10m launch

By Alexander Nicoll

THIS WEEK Noble Grossart, the Scottish merchant bank, is to launch the Plantation Trust Company. It is the only investment trust specialising in the worldwide plantation sector and will aim for capital growth.

The bank has underwritten an offer for sale, to be made through stockbrokers Kitcat & Aitken, and has already received subscriptions for all the 1.4m units on offer at £7.25 each, to raise £9.7m net.

Three-quarters of the applications from institutions have been firmly accepted, but 25 per cent of the trust will be available to the public. The 350,000 units on offer each comprise five ordinary shares, one warrant to buy an ordinary share, and £2.50 of convertible stock.

The units will be dealt together until April 25, after which there will be markets in each of the three components.

A new management group, David Hume Investment Management, has been assembled, comprising: Mr David Pinsent, chairman of Anglo American Agriculture; Mr John Campbell, a Noble Grossart director; and Mr Stephen Kershaw, former investment manager of Czarnikow Group.

They plan to invest in permanent rather than annual crops, via smaller plantation companies listed in London and elsewhere, and through unlisted investments, especially in the U.S.

Plantation companies listed in the UK have outperformed equity indices, the managers say, and will continue to do so

● comment

A visit to the greengrocers or the dinner table is probably the closest that most fund managers come to researching avocados, kiwi fruit and nectarines, all listed among the crops in which the trust's activities will be "principally concentrated." So Mr Pinsent and his team are offering the out-of-the-ordinary expertise needed by institutions to justify entrusting money to other managers. Now investment trusts are rare enough, new management teams even rarer, these managers have good credentials in the plantation sector, and are clearly excited by projects such as new strains of grapes in the U.S. Investments such as these will require the team to travel widely and maintain detailed knowledge of diverse markets. Most of the portfolio, however, will be spread among small plantation stocks, and the potential for substantial capital growth must rely somewhat on corporate shakeups and takeovers. The trust's shares will almost certainly slip from the 95p implied issue price to a typical discount to net asset value, but buyers of the units are compensated by a free warrant.

Stefan Wagstyl looks at Coloroll's flotation plans

U.S. holds strong prospects

ONE OF the largest wallpaper manufacturers in the UK is to be floated on the Stock Exchange, with an estimated market capitalisation of £50m.

Merchant bank Charterhouse Japhet and broker Rowe and Pitman are seeking a full listing for Coloroll by means of an offer for sale, probably next month.

Coloroll is based in Nelson, Lancashire, and employs over 800 people in the UK, the U.S. and in Australia. Its biggest business is producing wallpaper for large customers like D-I-Y chains; it also supplies ranges of co-ordinated wall papers and furnishing fabrics under brand names such as Pretty Chic and Dolly Mixtures; and it has a packaging factory, making 500,000 plastic bags a day for supermarkets and other customers.

Mr Jhn Ashcroft, chief executive . . . overseas sales account for about 40 per cent of total turnover.

Established in 1923 to import rolls of coloured wrapping paper, Coloroll first began making wallpaper in the 1960s.

The founding Gatward family sold out in 1980-82 to a group of City institutions, which backed the appointment as managing director and subsequent chief executive of Mr John Ashcroft. He was formerly an executive with Crown Wall coverings.

Mr Ashcroft set about restructuring and expanding the business. The group, which had previously had no exports, began to expand abroad so that overseas sales now account for about 40 per cent of total turnover.

It set up a marketing and distribution company in Australia in 1983, and over the past 18 months has acquired a stake in a privately-owned U.S. wallpaper manufacturer, Wallmates, which is to rise to 80 per cent later this year.

Sales have grown steadily from £21.7m in 1980-1 to an estimated £39m for the year to the end of this month, or £58m including the sales of Wallmates.

Profits growth has been less than smooth: from £2.5m pre-tax in 1980-81 they jumped to £3.7m the following year in the first flush of post-recession recovery, but fell back sharply to £2m in 1982-83 when Coloroll was hit by a downturn in the UK wallpaper market, which forced several competitors to cut back their capacity heavily.

Sales and profits in the UK recovered strongly the next year, but the group was held back to £2.1m pre-tax, due the £800,000 cost of starting up in Australia. In the current year, profits are likely to be £3.3m or more, again they would have been higher but for a £100,000 loss in Australia, the costs of moving into the U.S. and an abortive venture into the distribution of D-I-Y security alarms in this country which has cost £200,000.

Consolidation of the U.S. company's profits will add about £1.7m to profits making a group total of more than £5m for the year.

Thirty-six-year-old Mr Ashcroft, who has been insured by his backers in a £5m key man policy, says the first stage in the company's development has been to build up wallpaper sales to D-I-Y chains.

Then Coloroll expanded its ranges of co-ordinated wallcoverings and fabrics (which are made to its designs by outside manufacturers). Mr Ashcroft believes this business has much further to go, for example, by setting up concession shops within large High Street stores.

The third stage of growth has been the push overseas. Mr Ashcroft sees very strong prospects in the U.S. in particular where he says the Americans are turning away from their traditional fabric-backed wallcoverings to English-style wallpapers.

The U.S. move is one reason for the company's intended flotation — the funds raised will help clear the $10m or so debts incurred in buying a controlling stake in Wallmates and to allow further growth in North America.

Sturla to go into liquidation

By Alexander Nicoll

Sturla Holdings, a leasing and hire purchase company which had its shares suspended two years ago, yesterday gave up a battle to overcome long-standing troubles and announced plans to go into voluntary liquidation.

Mr William Starkey, a director, said it was most unlikely that shareholders would receive anything in the liquidation and that the company had been discouraging over-the-counter dealing in its shares.

Sturla's shares were suspended at 6p in March 1983 shortly after the arrest of Mr Robert Knight, then its chairman, in connection with a City fraud squad inquiry into forged Eurobonds. He was later charged with conspiring to defraud financial institutions and, separately, Sturla and its shareholders.

Sturla later produced heavily qualified accounts for the 15 months to April 1982, and for the year to April 1983, in which it had a net attributable loss of £1.19m compared with a £2.18m loss in the previous period.

Mr David Britton, as chairman since June 1983, and Mr Starkey have since made several attempts to recapitalise the company and restore trading of the shares. An underwritten £2.2m rights issue was prevented last year because the Stock Exchange refused to lift the share suspension, and the two men then planned to inject capital via Osprey Financial Trust, a corporate finance company of which they are directors.

These plans too fell through as Sturla's potential liabilities mounted. The leasing business was hurt by the reduction in capital allowances in last year's Budget, and a substantial claim against the company emerged. The claim relates to the company's former problems.

Banco de Bilbao plans UK listing

Banco de Bilbao, the fourth largest bank in Spain, is planning to get a listing on the UK Stock Exchange in the first half of 1985, the first Spanish company to apply.

Hill Samuel, meanwhile, has arranged a placing of 713,250 shares, equal to 1.6 per cent of Bilbao's equity, raising the equivalent of £5.6m. The shares are represented by investor depositary receipts in which Quilter Goodison, the stockbrokers, have agreed to make a market on the basis of matched deals.

BOARD MEETINGS

TODAY

Interims:—Chambom and Fergus, Prestwich Holdings.

Finals:—Cambridge Electronic Industries, Isle of Man Enterprises, KCA Drilling, Metalrax, William Morris Fine Arts, Petranol, Petrocon, Pittard, Sala Tilney, Systems Designers International.

FUTURE DATES

Interims:—
Sandeman Murray and Elder ... Mar 21

Finals:—
Associated Book Publishers ... Mar 27
Automotive Products ... Mar 19
Britannia Arrow ... Mar 27
Britannic Assurance ... Mar 27
Jaguar ... Mar 27
Johnson Group Cleaners ... Mar 26
Ladbroke ... Mar 26

Espley sells American Property stake for £9m

BY MICHAEL CASSELL, PROPERTY CORRESPONDENT

NORTH AMERICAN property interests of Espley Trust, which is fighting for survival, have been sold to a UK investment consortium for $10m (£9.2m).

The purchaser of Espley's 37 per cent stake in American Property Group is a consortium organised by Stanecastle Assets, the Edinburgh-based managers of Edinburgh Financial Trust (formerly Yorkshire and Lancashire Investment Trust).

Stanecastle said that Espley's recent problems had enabled the consortium to acquire the shareholding on favourable terms.

Under the chairmanship of Mr Ronald Aitken, who replaced Mr Ronald Shuck last September, the group has embarked on a major UK and overseas asset disposal programme to reduce heavy debts. Mr Shuck was subsequently sacked as managing director and the group has started legal proceedings against him involving earlier land deals in Scotland.

In the latest sale, the consortium has also taken an option on Espley's outstanding 4 per cent stake in APG. Participants in the consortium are Scottish Northern Investment Trust, London and Manchester Assurance, Loomanpen, United Kingdom Temperance and General Provident Institutions, U.S. Debenture Corporation and Edinburgh Financial Trust.

The consortium has, through the Bank of Scotland, made a $1.8m line of credit immediately available to APG, which was formed eight years ago and has since completed a range of commercial, residential and leisure developments in the U.S., principally in New Jersey.

The founder and principal shareholder in APG, Mr Matthew Hudson, said yesterday that the UK consortium has indicated "strong support" for the development team, enabling it to realise the full potential of current projects. He added that substantial profitability in 1985 would be underpinned by a strong cash flow. An over-the-counter listing of APG shares is expected later this year.

Hepworth Ceramic in £14m sale

Hepworth Ceramic Holdings, the clay pipes and refractories group, has sold four plastic pipe extrusion plants on the West coast of the U.S. for $14.87m (£13.7m) cash to a private U.S. company.

Hepworth said these factories were the least profitable part of subsidiary acquired in 1977.

Western, based in Tacoma, Washington State, has a total of 11 manufacturing plants, with turnover of $70m.

The sale proceeds and the working capital released by the sale will be used by Hepworth to [illegible] in the U.S. and else-

RECENT ISSUES

EQUITIES

Issue price	Amount paid up	Latest Renunc. date	1984/85 High	1984/85 Low	Stock	Closing price	+ or −	Net Div.	Times covered	Gross Yield	P.E. Ratio
—	F.P.	—	280	260	*Addison Page 5p	280	...	u2.3	9.8	1.2	42.6
§82	F.P.	19/4	72	76	*BTS 10p	79	+5	bg5.4	6.0	5.2	18.3
100	F.P.	3/5	152	131	Berkeley Technology	145	...	bQ3.7c	1.6	4.2	15.2
§90	F.P.	1/5	145	112	*Bluebird Toys 10p	140	...	u3.15	2.3	3.2	19.7
‖‖	F.P.	—	127	112	Cullen's Hldgs 10p	122	+2	—	—	—	—
100	F.P.	22/3	111	101	German Small Units■	111	...	—	—	—	—
§145	F.P.	14/5	180	165	Hillsdown Hldgs. 10p	158xd	+5	gd3.5	6	3.2	6
¶145	F.P.	—	161	156	Mann 20p	156	...	bg3.5	2.8	5.2	15.8
§100	F.P.	12/4	250	117	*Mayhew Foods 10p	187	−3	bg1.55	2.9	8.2	15.7
‖‖	F.P.	—	625	250	*Memcom Intl. 10p	285	...	3.5	4.1	1.8	18.3
§125	F.P.	22/3	212	190	*Osborne & Little 5p	207	−5	bg2.0	5.2	1.4	52.8
100	73	1/5	78	70	Pacific Assets Tst.50p	70xa	...	—	—	—	—
—	F.P.	—	42	39	Do. Ser. 1 Warrants	42	...	—	—	—	—
¶¶	F.P.	—	85	80	P.&O. Warrants	85	...	—	—	—	—
100	F.P.	—	107	100	*Pepe 10p	102	−1	u3.0	3.5	4.2	15.6
‖§	F.P.	—	60	57	*Sangers	60	...	—	—	—	—
§128	F.P.	11/4	165	142	*Sims Catering 5p	158	−2	bg3.5	3.1	3.4	15.5
§174	F.P.	1/5	225	200	*Synapse Comp'r. 5p	225	+3	bgd1.7	5.1	1.0	28.4

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1984/85 High	1984/85 Low	Stock	Closing price £	+ or −
92.574	£50	10/4	34¼	27	African Dev. Bank 11¼% Ln. 2010	33¼	+⅛
¶¶	F.P.	—	115	108	Beazer (C. H.) 5¼% Uns. Ln. 2000	112	...
100	£10	9/5	13¼	11¾	Bournemouth Wtr. 13¾% Red. Deb. '95	12¼	+¼
§101	£51	15/8	54	50	Felixstowe Dock Prf. Units †	53	...
86.81	£30	12/6	30⅞	24	Int.-Am. Dev. Bk. 9¾ Ln. 2015	30½	+⅛
100	£10	2/5	13¼	11⅛	Mid Kent Wtr. 13¾% Red. Deb. 1995	12¼	+¼
100	£10	6/5	11½	10½	Do. 12¼% Red. Deb. 2005	11	...
¶100	£10	26/5	12¾	12	Mid Southern Wtr. 8% Red. Prf. 1990	12¾	...
§97½	£10	26/4	12¼	10¾	Mid-SussexWtr. 12% Deb 2010	11¼	−¼
—	F.P.	—	99⅝	98⅝	Nationwide Bldg. Soc. 12% 3/2/86	99	+¼
—	F.P.	—	100¼	99¼	Do. 12¾% 24/2/86	99⅝	...
¶¶	F.P.	—	120	109	P. & O. 6.5% Conv. Red. Prf.	114	+2
¶¶	F.P.	—	112	109	Pleasurama 7% Cnv. Red. Prf.	110	...
‖	F.P.	12/4	142	102	*Sangers 11% Cnv. Uns. Ln. 94/02	142	+2
£211	F.P.	15/2	120	107	Shires Inv. Units ‡	120	...
49.896	£50	12/7	33¼	30	Spain(Kingdom of) 11¾% Ln 2010	33¼	+¼
91.976	£20	27/3	24⅞	17½	Sweden 11% Ln. 2012	22⅝	+¼
§	F.P.	26/4	121	115	Tricentrol 11% Cnv. Uns. Ln. 25/05	116	...
§	Nil	19/4	1½pm	½pm	Wigfall (H) 7% Cv. Cm.Prf Rd.	1pm	...

RIGHTS OFFERS

Issue price	Amount paid up	Latest Renunc. date	1984/85 High	1984/85 Low	Stock	Closing price	+ or −
8	Nil	—	30pm	10pm	*Acorn Computer 1p	10pm	...
32	F.P.	12/4	46pm	41pm	Barrow Hepburn	42pm	−½
R5	Nil	—	58pm	30pm	Beatrix Mines	55pm	...
225	Nil	—	50pm	20pm	Bibby (J) 50p	30pm	...
370	F.P.	4/4	468	418	Bunzl	465	+5
A$2	Nil	—	48pm	40pm	*DSR A$1	40pm	−2
355	F.P.	3/4	460	440	DPCE 5p	460	...
13½	F.P.	26/4	14½	12	Lyle Shipping Prefd. 5p	12	...
80	F.P.	22/3	96	85	Newman-Tonks	91	...
100	F.P.	29.3	222	216	New Tokyo Inv. Tst. 50p	216	...
A$0.2	Nil	—	3pm	2½pm	*Oil Search	3pm	...
66	F.P.	4/4	86	80	* Pres. Entertainments50p	85	...
650	Nil	26/4	158	145	R.E.A. Hldgs. Units‡‡	148	...
39	F.P.	29/3	52½	45½	Renold	52½	+1½
210	F.P.	9/4	284	232	Royal Bank of Scotland	278	−4
33½	F.P.	12/4	60pm	56½pm	*Sangers	60pm	...
40	F.P.	29/3	57pm	47pm	*Southwest Res. 40p	53pm	...
190	Nil	31/5	14pm	3½pm	STC	8pm	−1
455	F.P.	—	567	525	Systems Designers 5p	540	+5
312	Nil	12/4	38pm	33pm	Trafalgar House 20p	36pm	...
12½	F.P.	27/5	25½	21½	Westwood Dawes 'B' 12½p	22	...

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. u Forecast dividend cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1985. H Dividend and yield based on prospectus or other official estimates for 1984. Q Gross. p Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment letters or fully-paid. ‖‖ Introduction. * Unlisted Securities Market. § Placing price. † Figures assumed. †† Official London Listing. ‡‡ Dealt in under Rule 535(3). † Comprising 100 Prf. and one Ptg. share. ‡ Comprising one 11 per cent Cnv.Uns.Ln stk. and one Warrant. ● With Warrants attached. ‡‡ Units comprising one New Ord., four New Prf. and one Warrant. ◆ Figures or report awaited.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
AMEC	Apr 18	Final 6.5	*Ladbroke	Mar 28	Final 4.945
Anglo Amer. Inv Tst.	Apr 12	Final 440c	*Lasmo	Apr 3	Final 7.0
Assoc Brit. Ports	Apr 4	Final 5.5	Legal and General	Mar 28	Final 12.5
*Automotive Products	Mar 19	Final 0.5	*Lucas Inds	Mar 28	Interim 2.6
*BAT Indusis	Mar 21	Final 4.875	Mills and Allen Intl	Mar 16	Interim 4.0
*BICC	Mar 20	Final 7.04	Morgan Crucible	Apr 12	Final 4.0
*BPCC	Mar 21	Final 2.0	NEI	Apr 17	Final 3.8
Babcock Intl.	Mar 28	Final 4.3	*Newarthill	Apr 3	Final 10.0
Bank of Scotland	Apr 18	Final 18.5	Ocean Transport	Mar 27	Final 2.35
*Barratt Devs	Mar 19	Interim 2.31	Pearson	Mar 23	Final 6.0
Barrow Hepburn	Mar 16	Final 1.4	Phoenix Assurance	Apr 4	Final 12.2
*Boddingtons Brews	Mar 16	Final 1.5	*Prudential	Mar 26	Final 13.5
*Bowater	Mar 21	Final 4.25	*Queens Moat Houses	Apr 2	Final 0.865
*Brent Chems	Mar 26	Final 2.2	RMC	Mar 19	Final 7.3
British Aerospace	Mar 27	Final 6.0	Raybeck	Mar 20	Final 0.5
British Car Auction	Mar 27	Interim 1.1	Reckitt and Colman	Mar 27	Final 7.85
*Britoil	Mar 21	Final 6.7	Rio Tinto Zinc	Apr 11	Final 12.0
Brixton Estate	Apr 11	Final 2.7	Rockware	Mar 21	Final nil
*Bryant	Mar 27	Interim 1.0	*Rugby Portland Cement	Apr 15	Final 3.1
Bunzl	Mar 2?	Final 6.0	Scottish Heritable Tst	Mar 28	Final 1.1
Burmah Oil	Apr 3	Final 6.25	*Slough Ests	Apr 1	Final 2.475
*Burton	Mar 28	Interim 2.0	*Smith and Nephew	Mar 28	Final 3.1
Cape Inds	Mar 27	Final 3.8	Smiths Inds	Mar 27	Interim 4.75
*Costain Group	Apr 2	Final 2.6	Standard and Chartered Bk	Mar 27	Final 16.5
*Coates Bros	Mar 27	Final 3.5	*Steetley	Mar 25	Final 7.0
Combined Eng Stores	Mar 28	Final 2.81	*Sun Alliance	Apr 3	Final 34.0
Cookson	Mar 27	Final 6.5	Taylor Woodrow	Apr 10	Final 16.0
*Croda Ind	Mar 25	Final 5.5	Tricentrol	Mar 28	Final 7.2
*DRG	Mar 27	Final 3.5	*Turner and Newall	Mar 22	Final 0.75
*Delta	Mar 26	Final 1.33	*United Newspapers	Mar 28	Final 8.0
Eastern Prod	Mar 28	Final 5.0	Weir	Mar 19	Final 1.75
*Exco Intl	Mar 28	Final 4.0	*Willis Faber	Mar 26	Final 15.0
Enterprise Oil	Mar 28	Final 5.0	*Woolworth	Mar 25	Final 8.0
*Fisons	Mar 28	Final 2.0			
*GRE	Apr 3	Final 15.25			
*Gill and Duffus	Apr 12	Final 6.0			
Glaxo	Mar 27	Interim 4.0			
Glynwed	Mar 25	Final 5.4			
Harris Queensway	Mar 29	Final 4.75			
Hawker Siddeley	Apr 17	Final 7.1			
*Hepworth Ceramic	Mar 22	Final 3.8			
*Hickson Ind	Mar 25	Final 2.5			
*Higgs & Hill	Apr 3	Final 7.0			
*Horizon Travel	Mar 19	Final 4.457			
*IMI	Mar 22	Final 2.5			
*Ibstock Johnsen	Mar 20	Final 3.75			
*Jaguar	Mar 27	Final 6.0			
Kwik Save	Apr 13	Interim 1.3			

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

F.T. Share Information

The following securities have been added to the Share Information Service:
Consolidated Tern Investments (Section: Property).
Moss Bros. (Drapery and Stores).

A copy of this offer for sale, which comprises listing particulars with regard to The Plantation Trust Company plc given in compliance with The Stock Exchange (Listing) Regulations 1984, has been delivered to the Registrar of Companies as required by those regulations. Application has been made to the Council of The Stock Exchange for admission to the Official List of the ordinary shares, warrants and convertible stock now being issued.

The directors of the Company, whose names appear below, are the persons responsible for the information contained in this document. To the best of the knowledge and belief of the directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. All the directors accept responsibility accordingly.

THE PLANTATION TRUST COMPANY plc

(Registered in England under the Companies Acts 1948 to 1981 No. 1893940)

Offer for Sale

by

Noble Grossart Limited

in conjunction with

Kitcat & Aitken

of

1,400,000 units

(each unit comprising five ordinary shares, one warrant and £2.50 nominal of convertible stock) **at £7.25 per unit** payable in full on application.

The application list for the units now offered for sale will open at 10.00 a.m. on Thursday, 21st March, 1985 and may be closed at any time thereafter. The procedure for application and the application form are set out at the end of this document.

SHARE CAPITAL

Authorised		Issued and now being issued
£4,000,000	in ordinary shares of 25p each	£1,750,000

LOAN CAPITAL

£3,500,000 nominal of 7½ per cent. convertible unsecured loan stock 2000

The Company has created warrants carrying rights, exercisable at 100p per share during the period of 28 days prior to 31st August in any of the years 1986 to 1995, to subscribe for a total of 1,400,000 further ordinary shares.

Holders of convertible stock will be entitled to convert such stock into ordinary shares at the rate of one ordinary share for every 105p nominal of convertible stock. The conversion rights may be exercised during the month of August in any of the years 1988 to 2000. The redemption date will be 30th September, 2000.

The offer for sale has been fully underwritten by Noble Grossart Limited. The directors are aware of intended applications from sub-underwriters for all of the units now being offered for sale. Noble Grossart Limited has undertaken to accept such applications in respect of 1,050,000 units, representing 75 per cent. of the units offered for sale.

DIRECTORS, SECRETARY AND ADVISERS

Directors

Edwin Hadsley-Chaplin (Chairman)
Tubs Hill House, London Road, Sevenoaks, Kent TN13 1DG

Derek Alfred Howard Baer
1 Laurence Pountney Hill, London EC4R 0BA

Alastair John Wilson Campbell
17 Lincoln's Inn Fields, London WC2A 3ED

John Stephen Kershaw
8 Crescent, London EC3N 2LY

David Hume Pinsent
Old Chellows, Crowhurst, Nr. Lingfield, Surrey RH7 6LU

Secretary and Registered Office
Richard Blair Drummond, F.C.A.
Empire House, 123 Kennington Road, London SE11 6SF

Investment Manager
David Hume Investment Management Limited
8 Crescent, London EC3N 2LY

Issuing House
Noble Grossart Limited
48 Queen Street, Edinburgh EH2 3NR
and
17 Lincoln's Inn Fields, London WC2A 3ED

Stockbrokers to the Company and to the Offer
Kitcat & Aitken
The Stock Exchange, London EC2N 1HB

Auditors and Reporting Accountants
Deloitte Haskins & Sells
Chartered Accountants
128 Queen Victoria Street, London EC4P 4JX

Solicitors to the Company and to the Offer
Stephenson Harwood
Saddlers' Hall, Gutter Lane, Cheapside, London EC2V 6BS

Bankers
Barclays Bank PLC
P.O. Box 69, 114 Fenchurch Street, London EC3P 3HY

Receiving Bankers
Barclays Bank PLC, New Issues Department
P.O. Box 123, Fleetway House, 25 Farringdon Street, London EC4A 4HD

Registrars and Transfer Office
Barclays Bank PLC
Radbroke Hall, Knutsford, Cheshire WA16 9EU

DEFINITIONS

In this document save as the context otherwise requires:–

"Company"	means The Plantation Trust Company plc
"directors" or "board"	means the board of directors of the Company
"ordinary shares"	means ordinary shares of 25p each in the Company
"convertible stock"	means the £3,500,000 nominal of 7½ per cent. convertible unsecured loan stock 2000 of the Company, the particulars of which are set out below
"warrants"	means the 1,400,000 warrants, each to subscribe for one ordinary share, the particulars of which are set out below
"unit"	means a unit comprising five ordinary shares, one warrant and £2.50 nominal of convertible stock
"David Hume Investment Management Limited"	means Incascope Limited (in the course of changing its name to David Hume Investment Management Limited)

INTRODUCTION

The Company is an investment trust created to exploit investment opportunities in the plantation sector worldwide. It is unique in that no other United Kingdom listed investment trust now specialises solely in that sector. The Company will employ the considerable experience and expertise of members of the board in the plantation industry in pursuit of capital appreciation for its shareholders. The directors intend to concentrate on permanent crop investments.

The proceeds of this offer for sale, which has been fully underwritten by Noble Grossart Limited, will amount to approximately £9.7 million, after expenses.

The directors are aware of intended applications from sub-underwriters for all of the units now being offered for sale. Noble Grossart Limited has undertaken to accept such applications in respect of 1,050,000 units representing 75 per cent. of the units offered for sale.

THE PLANTATION SECTOR

Performance

Since the early 1970s the average stock market performance of the shares of plantation companies listed in the United Kingdom has substantially outpaced the principal United Kingdom equity indices. Specific listed plantation investments both in the United Kingdom and overseas markets have produced returns well in excess of that average. The directors believe that above average performance will be maintained owing to three principal factors: increasing operating returns; re-rating as a result of improved investor appreciation of companies in the sector; and corporate activity, including mergers, take-overs and acquisitions of strategic shareholdings.

Operating Returns

Factors contributing to increases in operating returns include the following:–

Improved productivity – Crop yields have shown substantial improvements as a result of the use of better planting material, fertilisers, pesticides and herbicides and through general improvements in managerial and agricultural practices. Net income growth has been further enhanced through cost savings arising from economies of scale and mechanisation. Biogenetic research has already begun to have an impact on annual crops. The directors believe that major advances in this field within the permanent crop sector are poised, in the case of some crops, to produce dramatic improvements in yield potential and disease resistance, as compared with improvements which have in the past been achieved using traditional methods.

Demand Factors – World population growth and rising standards of living increase demand for plantation products including crops used for food, feed and fibre. Despite yield improvements, even if current living standards are merely to be maintained, substantial increases in total land areas would be required to be brought into production. On the basis of current production costs and commodity prices the profitability on much of this new land would be marginal. In order to provide the economic incentive for such development, commodity prices would have to rise, thus increasing the return on existing land.

Re-rating

The ability of investors to assess the opportunities available in the plantation sector is hampered by the wide range of different companies and crops, and the difficulty in obtaining and assimilating the relevant information given the limited amount of investment research on the sector. As a result many of the listed shares in the sector have in the past proved to be undervalued. However, improvements in investor appreciation and knowledge of individual companies and crops have frequently resulted in significant re-assessments of value.

Corporate activity

The process of re-rating has been assisted in certain cases by plantation companies and groups of other investors building up strategic stakes to serve as springboards for effecting changes in ownership and management. Such moves have tended to alter perspectives of value not only of the target company but also of other companies with related activities.

Permanent crop sector

The term permanent crop describes any species which reaches maturity over a period of years and yields for a number of years thereafter. Annual crops are planted and harvested in the same crop year. Permanent crops traditionally provide a higher return than annual crops. While annual crops typically yield less than 5 per cent. on capital employed, permanent crops are able, depending on crop, commodity prices, cyclical patterns and growing conditions, to achieve yields in excess of 10 per cent. The period of years required to bring new permanent crop plantings to maturity results in less elasticity of supply than for annual crops. While this can lead to greater volatility in prices than for annual crops, where planting levels can be adjusted to reflect short-term supply and demand, the successful selection of permanent crops fulfilling the optimum supply and demand criteria can offer the opportunity for returns which are substantially better than average.

Scale of sector

The aggregate market capitalisation of United Kingdom and overseas registered plantation companies in the permanent crop sector listed on worldwide stock exchanges is in excess of £5,000 million. This does not include the major plantation interests of many overseas traders. There are substantial plantation industries in the United States, Australia and other countries in the Pacific Area, as well as in certain countries in Africa, Europe and South America. For example, there are over 200 permanent crops grown in California alone, of which the principal crops – grapes, citrus and nuts – cover some 1.4 million acres, currently valued at approximately US$10,000 million.

INVESTMENT POLICY

The principal objective of the Company is to achieve capital growth.

The directors intend that the Company will principally invest in equity securities listed on the United Kingdom and overseas stock markets. In addition a proportion of available funds will be invested in unlisted securities and indirectly in stakes in plantation ventures. The board intends to invest a significant part of these funds in the United States, where the opportunities for listed plantation investments are limited. It also intends to use its expertise, where suitable opportunities arise, to build up strategic stakes.

Examples of crops and geographical areas in which the board's investment activities will be principally concentrated are set out below:–

Crop	Producing countries
Avocados	United States
Citrus	United States, Australia
Cocoa	Malaysia, Indonesia
Coconuts	Malaysia, Indonesia, Papua New Guinea, Central America
Coffee	Kenya, Indonesia
Cotton	Australia
Dates	United States
Grapes (table, wine, raisin)	United States, Australia
Kiwi fruit	United States, Australia, New Zealand
Nuts (almonds, macadamias, pecans, pistachios, walnuts)	United States, Australia, Central Africa
Palm oil	Malaysia, Indonesia, Papua New Guinea
Pineapples	United States
Rubber	Malaysia, Indonesia, Papua New Guinea
Stone fruit (plums, peaches, nectarines, apricots)	United States
Tea	Bangladesh, Malawi, Kenya, India, Indonesia

Within this substantial overall spectrum of investment there are, in the board's view, a range of above average individual opportunities, both in large companies and to a greater extent in smaller companies or in joint venture opportunities, which have significant investment potential.

The board intends, subject to suitable opportunities being available and to market conditions and interest rates, to employ a degree of gearing in addition to the convertible stock. The trust deed to constitute the convertible stock will limit the ability of the Company and any subsidiaries to borrow by reference to a multiple of one and a half times adjusted capital and reserves as shown by its latest audited accounts. The trust deed will, pending the preparation of the audited accounts of the Company for its financial period ending on 31st March, 1986, limit the Company's power to borrow £7 million in addition to the convertible stock. It is not, however, the Company's intention to utilise initially the full borrowing powers.

Although it is proposed to invest the Company's funds fully in shares or other securities, the directors may in appropriate circumstances invest *inter alia* in bonds, deposits or short term money market instruments in any country.

In accordance with the requirements of the Council of The Stock Exchange, it will be part of the investment policy of the Company:–

(1) that not more than 10 per cent. of its assets (before deducting borrowed money) may be lent to, or invested in the securities of, any one company (other than holdings in another investment trust which has been approved by the Inland Revenue or which would qualify for such approval but for the fact that it is not yet listed) including loans to or shares in its own subsidiaries;

(2) that not more than 25 per cent. of its assets (before deducting borrowed money) may be invested in the aggregate of:–

- (i) holdings in which the interest of the Company and any subsidiaries amounts to 20 per cent. or more of the aggregate of the equity capital (including any capital having an element of equity) of any one listed company (other than another investment trust which has been approved by the Inland Revenue or which would qualify for such approval but for the fact that it is not yet listed); and
- (ii) securities not listed on any recognised stock exchange; and

(3) that its income will be derived wholly or mainly from shares or other securities.

The investment policy described in this section will, in accordance with Stock Exchange requirements, be adhered to for at least three years following listing, and the policy of investment in the plantation sector will not be altered at any time without the consent of shareholders.

In addition, in order to qualify as an approved investment trust within the meaning of Section 359 of the Income and Corporation Taxes Act 1970 (as amended) no holding in any one company (other than a company which is for the time being an investment trust) may represent more than 15 per cent. by value of the Company's investments at the time the investment is acquired.

DIRECTORS

Members of the board have extensive direct experience of investment in plantation shares and, of equal importance, in the direct management of substantial plantation companies owning and operating plantation estates in many parts of the world. The personal connections of the directors extend to a large number of international plantation and agricultural groups of potential investment interest. They also extend into the financial sector, in particular in North America, which is frequently the source of both finance for, and introductions to, transactions.

A substantial amount of time is spent by board members travelling overseas maintaining contact with the participants in the international agricultural sector whether they be operators, investors, or financiers.

Edwin Hadsley-Chaplin (Chairman), aged 62, is chairman of Rowe Evans Investments PLC and a director of a number of other plantation companies listed on the London Stock Exchange, including Beradin Holdings PLC and Bertam Holdings PLC, and of Colly Farms Cotton Limited, an Australian listed cotton producer. He has been actively involved in the international plantation industry since 1947 and is a former chairman of the Rubber Growers Association.

Derek Baer, aged 63, is the chairman of The Foreign and Colonial Investment Trust PLC and a director of a number of listed companies including The Stockholders Investment Trust PLC and Temple Bar Investment Trust PLC. He is also on the London board of The Colonial Mutual Life Assurance Society Limited and, since 1956, he has been a director of John Govett & Company Limited.

John Campbell, aged 38, is a director of Noble Grossart Limited, deputy chairman of Anglo American Agriculture PLC, a United Kingdom public company specialising in the United States permanent crop sector, and a director of Beradin Holdings PLC and Colly Farms Cotton Limited. Over the last twelve years he has been extensively involved with the plantation sector, both in an advisory capacity as a merchant banker and from 1979 to 1982 as managing director of McLeod Russel PLC.

Stephen Kershaw, aged 53, joined the investment department of Czarnikow Group Limited in 1968 and held the position of investment manager from 1982 to 1984. He specialised in the management of plantation and commodity shares and also participated in the management of the Ebor Commodity Share Unit Trust. He was a director of Bandanga Holdings Limited, a listed Malawi tea producer. He has contributed articles on commodity based shares to the Investors Chronicle and other publications.

David Pinsent, aged 41, is chairman and managing director of Anglo American Agriculture PLC. He was chairman and managing director of Bandanga Holdings Limited from 1973 to 1977 and has been a director of a number of listed companies in the plantation and investment trust sectors, including Catel Trust Limited, Central Province Ceylon Tea Holdings Limited and Eastern Produce (Holdings) Limited.

INVESTMENT MANAGEMENT

The directors will be responsible for the determination of the Company's investment policy and will have overall control over the Company's activities. The Company has entered into an investment management agreement with a newly incorporated investment management company, David Hume Investment Management Limited, under which the day to day management of the Company's investments will be carried out. A summary of the terms of that agreement, which is conditional upon the management company obtaining appropriate licences, is set out in paragraph 5 under "General information" below.

David Hume Investment Management Limited is to be owned as to 50 per cent. by the Company, as to 20 per cent. by David Hume Securities Limited (a company controlled by David Pinsent), as to 10 per cent. by Stephen Kershaw, as to 10 per cent. by John Campbell and as to 10 per cent. by Noble Grossart Limited. The directors of David Hume Investment Management Limited are David Pinsent, John Campbell and Stephen Kershaw.

Whilst the agreement remains conditional, the day to day management of the investments of the Company will be carried out by Stephen Kershaw. An agreement has been entered into by Stephen Kershaw, the Company and David Hume Investment Management Limited, pursuant to which Stephen Kershaw will initially provide services to the Company and, on the investment management agreement becoming unconditional, to David Hume Investment Management Limited. Details of this agreement appear in paragraph 4 under "General information" below.

The Company has granted options to Edwin Hadsley-Chaplin, Derek Baer, John Campbell, Stephen Kershaw and David Pinsent to subscribe for a total of 525,000 ordinary shares at 100p per share exercisable between 1987 and 1992. The ordinary shares the subject of these options will equal 4.28 per cent. of the issued share capital of the Company following this offer for sale, assuming the full conversion of the convertible stock and the exercise of all the warrants.

David Hume Investment Management Limited may in the future enter into further investment management contracts with third parties but none are currently envisaged.

DIVIDEND POLICY

In order to qualify as an investment trust under the Income and Corporation Taxes Act 1970 (as amended) the Company must not retain in respect of any accounting period more than 15 per cent. of the income it derives from shares and securities. As stated above, however, the principal objective of the Company is the achievement of capital appreciation. Allowing for income required to cover interest on the convertible stock and other borrowings, dividend payments by the Company are likely to be modest.

Each annual dividend will be in the form of a single payment which is expected to be made in July. Accordingly, the first dividend is expected to be paid in July, 1986 in respect of the period ending 31st March, 1986. The Company's articles of association provide that profits from the sale of investments or other capital assets will not be available for distribution as dividends.

DETAILS OF THE OFFER

Units

A total of 1,400,000 units are being issued at the offer for sale price of £7.25 per unit. Each unit comprises five ordinary shares (with one warrant) at £4.75 and £2.50 nominal of convertible stock at par.

Application has been made to the Council of The Stock Exchange for admission to the Official List of the ordinary shares of the Company, the warrants and the convertible stock the subject of this offer for sale.

Ordinary shares

The amount of 95p per ordinary share payable on application represents 25p in respect of the nominal value, the whole of the premium of 67.88625p and the difference between the subscription price and the offer for sale price under the offer for sale agreement, particulars of which are set out in paragraph 5 of "General information" below. The ordinary shares now offered will rank for all dividends and other distributions hereafter declared, paid or made on the ordinary share capital of the Company.

Warrants

Each warrant will confer the right to subscribe for one ordinary share. The warrants will be exercisable during the period 28 days prior to 31st August in any of the years 1986 to 1995 inclusive at a subscription price of 100p per share (subject to the usual adjustments). Further details are set out under "Particulars of the warrants" below.

Convertible stock

The convertible stock will be constituted by a trust deed in favour of The Law Debenture Trust Corporation p.l.c., whose head office is situated at Estates House, 66 Gresham Street, London EC2V 7HX, as trustee for the holders of the convertible stock. Interest will be paid on the convertible stock at the rate of 7½ per cent. per annum (less tax) in two equal half-yearly instalments in arrears on 31st March and 30th September in each year, except that the first payment (which will be made on 30th September, 1985) will be of 390.4p (less tax) per £100 nominal of convertible stock.

Subject as provided in the trust deed, the convertible stock will be convertible into ordinary shares at the rate of one ordinary share for every 105p nominal of convertible stock. The conversion rights may be exercised during the month of August in any of the years 1988 to 2000, both inclusive, and any convertible stock outstanding at 30th September, 2000 will be redeemed at par on that date, together with accrued interest. Particulars of the convertible stock are set out below.

TAXATION

The directors intend to conduct the affairs of the Company in such a way that the Company satisfies the conditions for approval as an investment trust laid down in Section 359 of the Income and Corporation Taxes Act 1970 (as amended) and will apply to the Inland Revenue for such approval. Such approval is granted retrospectively and in respect of each accounting period for which approval is granted, the Company will, as a result of the provisions of the Finance Act 1980, be exempt from corporation tax on chargeable gains.

Investors are advised to consult their professional advisers on the possible tax consequences of their acquiring, holding or disposing of ordinary shares, warrants and convertible stock. However, set out in paragraph 6 under "General information" below are some comments which are intended to assist investors with regard to taxation, based on current law and practice.

ACCOUNTANTS' REPORT

The following is the text of a report received by the directors from Deloitte Haskins & Sells, Chartered Accountants, the auditors of the Company:

128 Queen Victoria Street
London EC4P 4JX

13th March, 1985

The Directors,
The Plantation Trust Company plc,
Empire House,
123 Kennington Road,
London SE11 6SF

Dear Sirs,

The Plantation Trust Company plc was incorporated on 8th March, 1985. The Company has not commenced business and, accordingly, no accounts have been made up and no dividends have been declared or paid.

Yours faithfully,
Deloitte Haskins & Sells
Chartered Accountants

APPLICATION PROCEDURE AND DEALINGS

The application procedure in respect of the 1,400,000 units now being offered for sale and a detachable application form appear at the end of this document. Application forms, each with the appropriate remittance, should be lodged not later than 10.00 a.m. on Thursday, 21st March, 1985. It is expected that fully paid renounceable letters of acceptance will be posted on Monday, 25th March, 1985, that dealings in the units will commence on Tuesday, 26th March, 1985 and that dealings in the ordinary shares, warrants and convertible stock separately will commence on Thursday, 25th April, 1985.

PARTICULARS OF THE WARRANTS

The warrants will be issued subject to the following terms and conditions:–

1 (A) A registered holder ("a holder") for the time being of a warrant shall have rights ("subscription rights") to subscribe in cash on each "subscription date", being 31st August in any of the years 1986 to 1995 inclusive (or, if later, the date in any such year 31 days after the date on which copies of the audited accounts of the Company for its then immediately preceding financial year are despatched to holders), for all or any of the number of ordinary shares specified in the warrant at the price of 100p per ordinary share ("the subscription price"), payable in full on subscription. The number and/or nominal value of shares to be subscribed and the subscription price will be subject to adjustment as provided in paragraph 2 below.

(B) In order to exercise the subscription rights in whole or in part, the holder of a warrant must lodge it at the office of the registrars of the Company on or within 28 days prior to the relevant subscription date having completed the notice of subscription thereon (and, if desired, the form of nomination contained on the reverse of the warrant), accompanied by a remittance for the subscription price of the ordinary shares in respect of which the subscription rights are exercised. Once lodged, a notice of subscription shall be irrevocable save with the consent of the directors. Compliance must also be made with any statutory requirements for the time being applicable. The subscription rights will not be exercisable in respect of a fraction of an ordinary share.

continued

THE PLANTATION TRUST CO. plc *continued*

(C) Not earlier than six weeks nor later than four weeks before each subscription date the Company shall give notice in writing to the holders of warrants reminding them of their subscription rights.

(D) Ordinary shares issued pursuant to the exercise of subscription rights will be allotted not later than 14 days after and with effect on and from the relevant subscription date and certificates in respect of such ordinary shares will be issued not later than 28 days after the relevant subscription date to the persons in whose names the warrants are registered at the date of such exercise or to such persons as the registered holders may nominate in the form of nomination. In the event of a partial exercise of the subscription rights comprised in a warrant, the Company shall at the same time issue a fresh warrant in the name of the holder for any balance of his subscription rights remaining exercisable.

(E) Ordinary shares allotted pursuant to the exercise of subscription rights will not rank for any dividends or other distributions declared, made or paid in respect of any financial year of the Company prior to the financial year current at the relevant subscription date but will rank in full for all dividends and other distributions declared, made or paid in respect of the then current financial year of the Company and *pari passu* in all other respects with the ordinary shares of the Company in issue on that date.

(F) Application will be made to the Council of The Stock Exchange for the ordinary shares allotted pursuant to any exercise of the subscription rights to be admitted to the Official List, and the Company will use all reasonable endeavours to obtain the grant thereof not later than 14 days after the relevant subscription date.

2 (A) Upon any allotment of ordinary shares fully paid by way of capitalisation of profits or reserves to holders of the ordinary shares on the register on a date (or by reference to a record date) on or before the final subscription date or upon any sub-division or consolidation of the ordinary shares on or before such date, the number and/or nominal value of ordinary shares to be subscribed on any subsequent exercise of the subscription rights will be increased or, as the case may be, reduced in due proportion and the subscription price per share will be adjusted accordingly. On any such capitalisation, sub-division or consolidation the auditors for the time being of the Company shall certify the appropriate adjustments and within 28 days of such adjustments notice will be sent to each holder of a warrant together with a warrant in respect of any additional shares for which that holder is entitled to subscribe in consequence thereof, fractional entitlements being ignored.

(B) If, on a date (or by reference to a record date) on or before the final subscription date, the Company makes any offer or invitation (whether by rights issue or otherwise) to the holders of the ordinary shares, or any offer or invitation (not being an offer to which paragraph 3(F) below applies) is made to such holders otherwise than by the Company, then the Company shall, so far as it is able, procure that at the same time the same offer or invitation is made to the then holders of the warrants as if their subscription rights had been exercisable and had been exercised on the day immediately preceding the record date of such offer or invitation on the basis then applicable.

3 So long as any subscription rights remain exercisable:–

(A) the Company shall not (i) make any distribution of capital profits or capital reserves except by means of a capitalisation issue in the form of fully paid ordinary shares; (ii) issue securities by way of capitalisation of profits or reserves except ordinary shares credited as fully paid and issued to the holders of its ordinary shares; or (iii) on or by reference to a record date falling within the period of six weeks ending on any subscription date make any such offer or invitation as is referred to in paragraph 2(B) above (except by extending to the holders of the warrants any such offer as may be made by a third party);

(B) the Company shall not in any way modify the rights attaching to its existing ordinary shares as a separate class, or create any new class of share capital, except for shares which carry, as compared with the existing ordinary shares, no more advantageous rights as regards voting, dividend or return of capital;

(C) the Company shall not issue any ordinary shares credited as fully paid by way of capitalisation of profits or reserves or make any such offer as is referred to in paragraph 2(B) above if as a result the Company would on any subsequent exercise of the subscription rights be obliged to issue ordinary shares at a discount;

(D) the Company shall not (except with the sanction of an extraordinary resolution) reduce its share capital or any uncalled or unpaid liability in respect thereof or (except as authorised by law) any share premium account, capital reserve or capital redemption reserve;

(E) the Company shall keep available for issue sufficient authorised but unissued share capital to satisfy in full all subscription rights remaining exercisable;

(F) if at any time an offer is made to all ordinary shareholders of the Company (or all such shareholders other than the offeror and/or any company controlled by the offeror and/or persons acting in concert with the offeror) to acquire the whole or any part of the issued ordinary share capital of the Company and the Company becomes aware that as a result of such offer the right to cast a majority of the votes which may ordinarily be cast at a general meeting of the Company has become vested in the offeror and/or such persons or companies as aforesaid, the Company shall give to the holders of the warrants notice of such vesting within 14 days of becoming so aware, and each such holder shall be entitled, at any time within the period of 30 days immediately following the date of such notice, to exercise his subscription rights on the terms (subject to any adjustment pursuant to paragraph 2(A) above) set out in paragraph 1 above and so that failing such exercise within such period such rights shall cease and determine upon the expiry of such period. For the purposes of this paragraph the publication of a scheme of arrangement under the Companies Acts providing for the acquisition by any person of the whole or any part of the ordinary share capital of the Company shall be deemed to be the making of an offer; and

(G) if an order is made or an effective resolution is passed for winding up the Company (except for the purpose of reconstruction, amalgamation or unitisation on terms sanctioned by an extraordinary resolution), each holder of a warrant will (if in such winding up there shall be a surplus available for distribution amongst the holders of the ordinary shares (including for this purpose the ordinary shares which would arise on the exercise of all the subscription rights), which, taking into account the amounts payable on the exercise of the subscription rights, exceeds in respect of each ordinary share a sum equal to the subscription price) be treated as if immediately before the date of such order or resolution his subscription rights had been exercisable and had been exercised in full on the basis then applicable, and shall accordingly be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of the ordinary shares such a sum as he would have received had he been the holder of the ordinary shares to which he would have become entitled by virtue of such subscription after deducting a sum per share equal to the then subscription price; subject to the foregoing all subscription rights shall lapse on liquidation of the Company.

4 All or any of the rights for the time being attached to the warrants may from time to time (whether or not the Company is being wound up) be altered or abrogated with the sanction of an extraordinary resolution.

5 Each warrant will be registered and will be transferable in whole or in part by instrument of transfer in any usual or common form, or in any other form which may be approved by the directors of the Company. No transfer of a right to subscribe for a fraction of an ordinary share of the Company may be effected.

6 The Company and its subsidiaries shall have the right to purchase warrants in the market or by tender available to all holders of warrants alike at any price or by private treaty at a price not more than 10 per cent in excess of the middle market quotation for the warrants on the previous dealing day. All warrants so purchased shall forthwith be cancelled and shall not be available for reissue.

7 (A) The Company will, concurrently with the issue of the same to its ordinary shareholders, send to each holder of a warrant (or in the case of joint holders to the first-named) a copy of each published annual report and accounts of the Company, together with all documents required by law to be annexed thereto, and a copy of every statement, notice or circular issued to ordinary shareholders.

(B) For the purpose of these Particulars, the expression "extraordinary resolution" means a resolution proposed at a separate meeting of the holders of the warrants duly convened and held and passed by a majority consisting of not less than three-fourths of the votes cast, whether on a show of hands or on a poll. To any such separate meeting all the provisions of the articles of association for the time being of the Company as to general meetings of the Company shall *mutatis mutandis* apply as though the warrants were a class of shares forming part of the capital of the Company but so that (a) the period of notice shall be 21 days at least (b) the necessary quorum shall be holders (present in person or by proxy) entitled to subscribe for one-third in nominal value of the ordinary shares attributable to the then outstanding warrants (c) every holder of a warrant present in person at any such meeting shall be entitled on a show of hands to one vote and every such holder present in person or by proxy at any such meeting shall be entitled on a poll to one vote for every ordinary share which he is entitled to subscribe (d) any holder of a warrant present in person or by proxy may demand or join in demanding a poll and (e) at any adjourned meeting a quorum as above defined is not present, those holders of warrants who are then present in person or by proxy shall constitute a quorum.

PARTICULARS OF THE CONVERTIBLE STOCK

The convertible stock was created by a resolution of the board of directors of the Company passed on 13th March, 1985 and will be constituted as an unsecured obligation of the Company by a trust deed (the "trust deed") in favour of The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the convertible stock (the "stockholders"). The trust deed will contain provisions (*inter alia*) to the following effect:–

1 **Definitions**

For the purposes of these particulars:

(A) "adjusted capital and reserves" means at any time the aggregate of:–

(1) the amount paid up or credited as paid up on the issued share capital of the Company; and

(2) the amounts standing to the credit of the capital and revenue reserves (including any share premium account and capital redemption reserve) of the Company and the subsidiaries plus any credit balance on profit and loss account;

all as shown by a consolidation of the then latest audited balance sheets of the Company and the subsidiaries (which shall be prepared on the basis of the historical cost convention modified, if applicable, by the revaluation of land and buildings) but:–

(a) adjusted in respect of any variation in interests in subsidiaries and in the paid up share capital of the Company and the amount of the said reserves since the dates of such balance sheets and taking account of the subscription moneys (including any premium) in respect of any share capital of the Company proposed to be issued for cash to the extent to which the subscription thereof has been unconditionally underwritten (provided such subscription moneys and any premium are payable not later than four months after the date of allotment) with effect from the date on which such issue was so underwritten;

(b) excluding all amounts in respect of unrealised appreciation of investments and all sums set aside for taxation whether in respect of deferred taxation or otherwise;

(c) excluding amounts attributable to minority interests in subsidiaries and any distributions to members of the Company and minority shareholders in subsidiaries out of profits accrued prior to the dates of the relative audited balance sheets and not provided for therein;

(d) excluding all amounts attributable to goodwill (other than goodwill arising only on consolidation) and other intangible assets;

(e) deducting therefrom any debit balance on profit and loss account or any reserve account;

(f) excluding such part of the interests of the Company or a subsidiary in an associated company, not being a subsidiary, as is attributable to any post-acquisition undistributed profits and reserves, but including such interests at original cost or, if lower, book value;

(g) deducting therefrom the amount (if any) by which the amount attributable in such consolidation to movable or immovable assets hired and/or leased by the Company and the subsidiaries exceeds the aggregate of the capital amounts in respect of such assets referred to in sub-paragraph (D)(8) below; and

(h) after making such other adjustments (if any) as the auditors (as defined in the trust deed) may consider appropriate.

PROVIDED THAT for so long as the Company shall not have any subsidiaries this definition shall be read and construed (*mutatis mutandis*) as though all references herein to subsidiaries and consolidation of balance sheets had been omitted.

The certificate or report of the auditors as to the amount of the adjusted capital and reserves at any time or in respect of any period may in the absence of manifest error be relied upon by the Trustee and if so relied upon shall be conclusive and binding on the Company and the stockholders;

(B) "equity share capital" means equity share capital as defined in Section 154 of the Companies Act 1948;

(C) "further stock" means further unsecured loan stock of the Company issued pursuant to the provisions of paragraph 7 below and constituted by a trust deed supplemental to the trust deed;

(D) "moneys borrowed" shall be deemed to include:–

(1) the principal amount for the time being owing in respect of any debenture within the meaning of Section 455 of the Companies Act 1948, whether issued in whole or in part for cash or otherwise;

(2) the principal amount for the time being owing of any moneys borrowed by or other indebtedness of and the nominal amount of any share capital of any person or body whether corporate or unincorporate the repayment whereof is for the time being guaranteed or secured or the subject of an indemnity given by the Company or a subsidiary and the beneficial interest in the right to such repayment or payment is not owned by the Company or a subsidiary, which shall, except insofar as otherwise taken into account, be deemed to be moneys borrowed by the Company or by such subsidiary as the case may be;

(3) the nominal amount of any issued share capital of any subsidiary (not being equity share capital which as regards capital has rights no more favourable than those attached to its ordinary share capital) owned otherwise than by the Company or another subsidiary, which is wholly-owned, which shall be deemed to be moneys borrowed by such first-mentioned subsidiary;

(4) the principal amount raised by any person by acceptances or under any acceptance credit opened on its behalf by any bank or accepting house; and

(5) the principal amount of any book debts of the Company or any subsidiary which have been sold or agreed to be sold, to the extent that the Company or any subsidiary is for the time being liable to indemnify or reimburse the purchaser in respect of any non-payment;

but shall be deemed not to include:–

(6) moneys borrowed otherwise falling to be taken into account pursuant to the limit set out in sub-paragraph (A) of paragraph 5 below and intended to be applied within four months of being so borrowed in the repayment of moneys borrowed then outstanding which fall to be taken into account pursuant to such limit pending their application for such purpose or the expiry of such period whichever shall be the earlier;

(7) a proportion of the moneys borrowed of any partly-owned subsidiary (but only to the extent that an amount equivalent to such proportion exceeds moneys borrowed (if any) from such partly-owned subsidiary by the Company or another subsidiary) such proportion being that which the issued ordinary share capital of such partly-owned subsidiary which is not for the time being beneficially owned directly or indirectly by the Company bears to the whole of the issued ordinary share capital of such partly-owned subsidiary;

(8) any amount prospectively payable by the Company or any subsidiary for the hire or lease of movable or immovable assets, notwithstanding that a capital amount in respect of such amount may be included as a liability in its latest audited balance sheet; and

(9) moneys borrowed of a company which becomes a subsidiary after 13th March, 1985 and which are outstanding at the date when such company becomes a subsidiary for the period of six months from the date of such event, but at all times on and after the date of the auditors' report on the audited accounts of the Company for its financial period ending on 31st March, 1986 only to the extent that they exceed any increase in the limit contained in sub-paragraph (A) of paragraph 5 below arising out of the adjustments to be made to the adjusted capital and reserves on account of the transaction whereby such company becomes a subsidiary and of any other transaction effected during such period of six months whereby the minority interest (if any) in such subsidiary is reduced;

(E) "ordinary share capital" and "ordinary shares" respectively mean share capital of the Company of the class and shares of the Company of the class in issue on 13th March, 1985 and "ordinary shareholders" shall be construed accordingly; and

(F) "subsidiary" means any company which is for the time being a subsidiary (within the meaning of Section 154 of the Companies Act 1948) of the Company.

2 **Interest**

Interest at the rate of 7½ per cent. per annum will be payable (less tax) on the convertible stock by equal half-yearly instalments on 31st March and 30th September (each an "interest payment date") in each year in respect of the half-years ending on those dates respectively, except that the first payment of interest on the convertible stock, which will be made on 30th September, 1985, will be in respect of the period from 25th March, 1985 to 30th September, 1985 (both inclusive) and will amount to 390.4p (less tax) per £100 nominal of convertible stock.

3 **Conversion rights**

(A) Each stockholder shall (upon and subject to the provisions hereinafter mentioned) have the right (together the "conversion rights") to convert the whole or any part (being an integral multiple of £1 nominal) of his holding of the convertible stock as he may specify into ordinary share capital credited as fully paid at the rate (subject to adjustment under sub-paragraph (D) below) of 25p nominal of ordinary share capital (i.e. 1 ordinary share of 25p) for every 105p nominal of convertible stock converted (such rate as so adjusted from time to time being hereinafter called the "conversion rate").

(B) Each certificate for convertible stock which remains capable of being converted shall have endorsed thereon a conversion notice. The conversion rights shall be exercisable by sending to the transfer office of the Company at any time during the month of August in any of the years 1988 to 2000 (both inclusive) (each such month (subject as hereafter in this sub-paragraph (B) provided) together with any other period during which conversion rights may be exercised being hereinafter called a "conversion period") so as to be received on or prior to the last day of the relevant conversion period (the "conversion date") the relevant convertible stock certificate(s) with the conversion notice(s) thereon duly completed and signed. The Company shall as at, and not later than 14 days after, the relevant conversion date allot ordinary shares in respect of convertible stock converted and within 28 days after the relevant conversion date despatch to the persons entitled thereto certificates for the said shares and (if applicable) separate certificates for any balances of convertible stock not converted and remittances in respect of any fractional entitlements. If for any reason the audited consolidated accounts of the Company and the subsidiaries for their financial period then most recently completed shall not have been despatched to the stockholders by 31st July in any of the years 1988 to 2000 (both inclusive), the relevant conversion period shall be postponed and shall (instead of the month of August) be the period of 31 days immediately following the date of such despatch of such accounts, the relevant conversion date shall be the last day of such period and the Company will inform stockholders by 31st July in such year of such postponement by notice in writing in a form previously approved by the Trustee.

(C) Interest on convertible stock converted shall be payable up to and including the interest payment date last preceding the relevant conversion date but shall cease to accrue immediately thereafter. Ordinary share capital allotted on conversion shall be credited as fully paid and shall carry the right to receive all dividends and (unless an adjustment shall have been made in respect thereof pursuant to sub-paragraph (D) below) all other distributions (including, but not limited to, any allotment referred to in sub-paragraph (D) below) declared, paid or made on the ordinary share capital in or in respect of the financial period of the Company in which the relevant conversion date falls, other than dividends in respect of any earlier financial period of the Company, and shall rank *pari passu* in all other respects and form one class with the ordinary share capital in issue on the relevant conversion date.

(D) (1) Upon any allotment of fully paid ordinary share capital pursuant to a capitalisation of profits or reserves (including share premium account and capital redemption reserve) to any ordinary shareholders on the register on a record date being a date on which any convertible stock remains capable of being converted, the nominal amount of ordinary share capital to be allotted in respect of convertible stock converted on any conversion date following such record date shall be increased in due proportion. No adjustment shall be made in the conversion rate by reason only of a holder of ordinary shares wholly or partially foregoing his entitlement to a cash dividend and in lieu thereof the Company making an issue to him of fully paid ordinary shares by way of capitalisation of an amount standing to the credit of the profit and loss account or reserves equal to the amount of the cash dividend foregone, provided that in respect of each such issue:–

(a) the Trustee shall have been given not less than 28 days' written notice thereof by the Company;

(b) the Trustee is supplied immediately prior thereto with a certificate from merchant bankers or other adviser approved by the Trustee to the effect that the basis of the issue of ordinary shares as aforesaid will not be materially prejudicial to the interests of the stockholders; and

(c) the Trustee is otherwise satisfied that the interests of the stockholders will not be materially prejudiced thereby.

(2) If, whilst any convertible stock remains capable of being converted, the Company shall make any offer of ordinary shares ("new shares") by way of rights to ordinary shareholders for which a listing on The Stock Exchange is obtained then on the occasion of each such offer EITHER the conversion rate shall be adjusted so that the nominal amount of ordinary share capital thereafter allotted in respect of every 105p nominal of convertible stock converted (and proportionately for any other nominal amount of convertible stock converted) shall be increased by an amount (expressed in pence) equal to:–

$$\frac{A \times C}{B + C}$$

where:

A equals the nominal amount (expressed in pence) of the new shares (including any fraction of a new share) which would have been offered to a holder of 105p nominal of convertible stock had his conversion rights been exercisable and exercised in full with effect immediately before the record date for such offer at the conversion rate then applicable;

B equals the price per share (expressed in pence) at which the new shares are being offered to ordinary shareholders; and

C equals the average (expressed in pence) of the middle market quotations on The Stock Exchange (calculated by reference to The Stock Exchange Daily Official List) for the new shares nil paid for all business days during the period in which the new shares are dealt in on The Stock Exchange nil paid;

OR the Company shall extend the offer at the same time to each stockholder as if his conversion rights had been exercisable and exercised in full on the record date for such offer at the conversion rate then applicable;

provided that:–

(i) in any such case the Company shall at the time of making the offer notify the stockholders in writing that it has exercised its option under this sub-paragraph (2) either so as to adjust the conversion rate or so as to extend the offer to stockholders; and

(ii) if the Company shall on the occasion of any such offer as is first mentioned in this sub-paragraph (2) exercise its option to extend the offer to stockholders then it shall on the occasion of each subsequent such offer also exercise its option so to extend the offer unless in any such case on application by it to the Trustee the Trustee agrees that it may instead adjust the conversion rate, but so that the Trustee shall not so agree unless a financial adviser appointed for the purpose by it (acting as an expert and not an arbitrator) shall have stated in writing that in its opinion so to agree would be likely to be in the interests of the stockholders as a body.

(3) The Company will forthwith notify the stockholders in writing in a form previously approved by the Trustee of any increases to the conversion rate pursuant to sub-paragraphs (1) and (2) above.

(E) If any offer (not being an offer falling within sub-paragraph (D)(2) above or (H)(10) below) or invitation is made to ordinary shareholders on the register on a record date being a date on which any convertible stock remains capable of being converted, the Company shall make, or use its best endeavours to procure that there is made, a like offer or invitation at the same time to each stockholder as if his conversion rights had been exercisable and exercised in full with effect immediately before such record date at the conversion rate then applicable. Except for an offer falling within sub-paragraph (D)(2) above, the Company shall not make, or permit any subsidiary to make, any offer or invitation to holders of the ordinary share capital unless it makes to each stockholder at the same time a like offer or invitation as referred to in the preceding sentence of this sub-paragraph.

(F) If any fractions of an ordinary share shall fall to be allotted on conversion the shares representing such fractions will not be allotted to the relative converting stockholders but will be aggregated and sold and the net proceeds of sale will be distributed *pro rata* among the persons entitled thereto, except that where the entitlement of any such person amounts to less than £1, the amount thereof shall not be distributed but shall be retained for the benefit of the Company.

(G) The Company will use its best endeavours:–

(1) to maintain a listing for the convertible stock on The Stock Exchange and, for so long as any convertible stock remains capable of being converted, to maintain a like listing for the ordinary share capital which is fully paid; and

(2) to ensure that during such time as the ordinary share capital is listed or quoted on The Stock Exchange together with any other stock exchange all the ordinary share capital allotted on conversion will, upon allotment, be admitted to the Official List by the Council of The Stock Exchange and/or will be listed or quoted on such other stock exchange.

(H) So long as any convertible stock remains capable of being converted the following provisions (*inter alia*) shall apply:–

(1) the Company shall not:–

(a) distribute capital profits (whether realised or not) or capital reserves (including any share premium account or capital redemption reserve) or profits or reserves arising from a distribution of capital profits (whether realised or not) or capital reserves (including as aforesaid) by a subsidiary except by means of a capitalisation issue permitted under (b) below or pursuant to any distribution described in sub-paragraph (12) below, and so that for the purpose of this sub-paragraph (H)(1)(a) [illegible] shall be entitled to rely upon a written certificate by the auditors as to the extent to which any part of any profits or reserves should be regarded as capital profits or capital reserves;

(b) capitalise any profits or reserves other than by way of a capitalisation issue made only to the ordinary shareholders in the form of fully paid ordinary shares and (if so extended) to the stockholders in proportion to the holders of any other class of equity share capital of the Company in the form of fully paid ordinary shares or shares of such other class of equity share capital, or for the purposes of a scrip dividend permitted under sub-paragraph (D)(1) above; or

(c) except with the prior written consent of the Trustee make any offer or invitation to ordinary shareholders or allot any shares in pursuance of a capitalisation issue during, or by reference to a record date falling within, a conversion period or following a conversion period by reference to a record date falling prior to such conversion period;

(2) save as permitted by (1) above or (3) below the Company shall not create or permit to be in issue any equity share capital which as regards voting, dividends, other distributions or capital has more favourable rights than those attached to the ordinary share capital and (without prejudice to the right of the Company to consolidate or sub-divide shares or convert shares into stock) it shall not without the prior written consent of the Trustee in any way alter the rights attached to all or any part of its share capital in issue from time to time or attach any special rights, privileges or restrictions thereto or convert any issued share or loan capital into equity share capital except in accordance with the terms of issue thereof;

(3) nothing in (2) above shall prevent the issue of any equity share capital:–

(a) pursuant to any scheme approved by the Company in general meeting to staff and employees (including directors holding executive office) of the Company or any subsidiary by reason of their office or employment; or

(b) carrying rights for a period not exceeding five years from the date of issue to dividends greater than those paid in respect of the ordinary shares provided that such equity share capital shall have been issued by way of consideration or part consideration for the acquisition of another business or of share or loan capital of another company and that the dividend payable on such equity share capital in respect of any financial period of the Company during such first-mentioned period shall not be at a rate in excess of three times the rate of dividend declared on an equivalent nominal amount of ordinary share capital in respect of the same financial period;

(4) the Company shall not do any act or thing resulting in an adjustment to the conversion rate if, in consequence, the nominal amount of ordinary share capital into which £1 nominal of the convertible stock would be convertible would exceed £1;

(5) the Company shall not (except as authorised by Section 37(2) of the Companies Act 1980 or by Section 45 of the Companies Act 1981 in respect of redeemable shares or of shares purchased by it with the sanction of stockholders as hereinafter mentioned) reduce its share capital or any uncalled or unpaid liability in respect thereof or (except as authorised by [illegible] of the Companies Act 1948 and Sections 45(6) and 53(3) of the Companies Act 1981) any amount for the time being standing to the credit of its share premium account or capital redemption reserve or (except with the sanction of an Extraordinary Resolution (as defined in the trust deed) of the stockholders) purchase any of its own shares;

(6) (a) if the Company commences liquidation (whether voluntary or compulsory) it shall forthwith give notice in writing thereof to all stockholders in a form previously approved in writing by the Trustee and thereupon each stockholder shall in respect of the whole or any part of his convertible stock be entitled within six weeks after the service of such notice to elect by notice in writing to the Company to be treated as if a conversion date had occurred on the day immediately preceding the date of such commencement and his conversion rights had been exercisable and exercised in full with effect on that date at the conversion rate then applicable (after making any appropriate adjustments pursuant to sub-paragraph (D) above) and in that event, subject as hereafter in this sub-paragraph (H)(6)(a) provided, such stockholder shall in lieu of the payment which would otherwise be due in respect of such stock be entitled to receive out of the assets available in the liquidation *pari passu* with the ordinary shareholders such a sum as he would have received had he been the holder of the ordinary shares to which he would have become entitled [illegible] conversion rights, provided that [illegible]

(b) if the convertible stock shall become immediately due and repayable in accordance with the provisions of the trust deed (for any reason other than the liquidation of the Company) the Company shall forthwith give notice in writing thereof to all stockholders in a form previously approved by the Trustee and thereupon each stockholder shall in respect of the whole or any part of his convertible stock be entitled within six weeks after the service of such notice to exercise his conversion rights (such exercise to be with effect as on the day immediately preceding the date on which the convertible stock shall have become so due and repayable which day shall be deemed to be a conversion date) at the conversion rate then applicable (after making any appropriate adjustments pursuant to sub-paragraph (D) above) by completing and signing the conversion notice(s) on his relevant convertible stock certificate(s) and depositing the same at the transfer office of the Company prior to the expiry of such six weeks;

(7) the Company shall not change the end of its financial period from 31st March or a day falling within 7 days before or after 31st March in each year unless the relevant conversion periods, conversion dates and interest payment dates shall be altered to such periods and dates, and such other modifications (if any) shall be made to the trust deed, as the Trustee shall require;

(8) the Company shall keep available for issue sufficient authorised but unissued ordinary shares to satisfy in full all rights for the time being outstanding of conversion into and subscription for ordinary shares;

(9) the Company shall send to all stockholders a copy of every document sent to ordinary shareholders at the time the same is sent to ordinary shareholders and in addition shall send to all stockholders not more than eight weeks and not less than four weeks prior to each conversion date a reminder in a form previously approved by the Trustee of the conversion rights then exercisable;

(10) if any offer is made to all the ordinary shareholders (or to all such holders other than the offeror and/or any company controlled by the offeror and/or persons associated, connected or acting in concert with the offeror) to acquire the whole or any part of the ordinary share capital (the "ordinary offer") and the Company becomes aware that the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or any company controlled by the offeror and/or persons associated, connected or acting in concert with the offeror, the Company shall give notice of that fact in writing in a form previously approved by the Trustee to all stockholders within 14 days of its becoming so aware and unless an offer, proposal, scheme or other arrangement which is on the same terms as to consideration as the stockholders would have received had they been entitled to exercise and had exercised their conversion rights in full and accepted the ordinary offer in respect of the ordinary shares allotted on such conversion (or on terms as to consideration which are, in the opinion of a financial adviser approved for such purpose by the Trustee, as favourable to the stockholders as, or more favourable to them than, such terms) has already been, or not later than 45 days after the date of such notice is, made or put to all stockholders then the Company shall forthwith thereafter give further notice in writing of that fact to all stockholders in a form previously approved by the Trustee and each stockholder may, within the period of 30 days after the date of such further notice:

(a) exercise his conversion rights in respect of the whole or any part (being an integral multiple of £1 nominal) of his convertible stock as he may specify (and so that for this purpose such 30 day period shall be deemed to be a conversion period, the last day thereof shall be deemed to be a conversion date and the provisions of sub-paragraph (C) above shall apply accordingly) at the conversion rate applicable on such deemed conversion date (after making any appropriate adjustments pursuant to sub-paragraph (D) above); and/or

(b) give notice in writing to the Company requiring the Company to redeem the whole or any part (being an integral multiple of £1 nominal) of his convertible stock as he may specify (excluding convertible stock to be converted under sub-paragraph (a) above) in cash at a price equal to the highest of:–

(i) the average of the middle market quotations of the convertible stock on The Stock Exchange (calculated by reference to The Stock Exchange Daily Official List) for the 14 consecutive dealing days next following the date of the announcement of the terms of the ordinary offer or, if such terms shall be subsequently revised, the date of the announcement of such revision; and

(ii) the value of the ordinary shares into which the convertible stock required to be redeemed as aforesaid would be converted if the stockholder were to exercise his conversion rights pursuant to sub-paragraph (a) above in respect of such convertible stock, such value to be calculated by reference to the average of the middle market quotations for the dealing days specified in (i) above of the ordinary shares (calculated by reference to The Stock Exchange Daily Official List); and

(iii) par.

The amount of such redemption (together with interest on the convertible stock so redeemed accrued up to and including the date of redemption) shall be paid on the day next following the expiry of 15 days after the deemed conversion date referred to in sub-paragraph (a) above.

The publication of a scheme of arrangement under the Companies Acts providing for the acquisition by any person of the whole or any part of the ordinary share capital shall be deemed to be the making of an offer;

(11) the Company shall procure that no compromise or arrangement (within the meaning of Section 206 of the Companies Act 1948 or any statutory modification or re-enactment thereof) affecting the ordinary share capital shall be proposed unless the stockholders shall be parties to the compromise or arrangement and unless the compromise or arrangement shall be subject to approval by the stockholders in the manner prescribed by the said Section provided that these provisions shall not apply if an offer, proposal, scheme or other arrangement which is, in the opinion of a financial adviser approved for such purpose by the Trustee, fair and reasonable (having regard to the terms of such compromise or arrangement) has already been, or not later than the date on which the document containing particulars of the compromise or arrangement shall first be issued to the parties thereto is, made or put to all stockholders nor shall it apply if the Trustee shall be of the opinion that implementation of such compromise or arrangement will not be prejudicial to the interests of the stockholders; and

(12) if the Company shall propose any arrangement pursuant to which the Company is to make a distribution of the kind described in paragraph 2(1)(a) or (b) of Schedule 18 to the Finance Act 1980 otherwise than by means of (i) an arrangement within the meaning of Section 206 of the Companies Act 1948 permitted by sub-paragraph (H)(11) above or (ii) an arrangement to which the provisions of such sub-paragraph do not apply by reason of the proviso thereto or (iii) an arrangement made or put to all stockholders which is, in the opinion of a financial adviser approved for such purpose by the Trustee, fair and reasonable (having regard to the terms of such first-mentioned proposed arrangement), it shall give notice thereof in a form previously approved by the Trustee to all stockholders not less than 45 days prior to the proposed record date in respect of the entitlement of ordinary shareholders to receive the relevant distribution (and/or shares in the company or companies to which any such distribution is to be made) and each stockholder may, within the period of 30 days after the date of such notice:–

(a) exercise his conversion rights in respect of the whole or any part (being an integral multiple of £1 nominal) of his convertible stock as he may specify (and so that for this purpose such 30 day period shall be deemed to be a conversion period, the last day thereof shall be deemed to be a conversion date and the provisions of sub-paragraph (C) above shall apply accordingly) at the conversion rate applicable on such deemed conversion date (after making any appropriate adjustments pursuant to sub-paragraph (D) above); and/or

(b) give notice in writing to the Company requiring the Company to redeem the whole or any part (being an integral multiple of £1 nominal) of his convertible stock as he may specify (excluding convertible stock to be converted under sub-paragraph (a) above) in cash at a price equal to the highest of:–

(i) the average of the middle market quotations of the convertible stock on The Stock Exchange (calculated by reference to The Stock Exchange Daily Official List) for the 14 consecutive dealing days next following the date of the said notice from the Company or the date on which the Company shall announce to its members the terms of the first-mentioned proposed arrangement (whichever shall be the earlier); and

(ii) the value of the ordinary shares into which the convertible stock required to be redeemed as aforesaid would be converted if the stockholder were to exercise his conversion rights pursuant to sub-paragraph (a) above in respect of such convertible stock, such value to be calculated by reference to the average of the middle market quotations for the dealing days specified in (i) above of the ordinary shares (calculated by reference to The Stock Exchange Daily Official List); and

(iii) par.

The amount of such redemption (together with interest on the convertible stock so redeemed accrued up to and including the date of redemption) shall be paid on the day next following the expiry of 15 days after the deemed conversion date referred to in sub-paragraph (a) above.

(I) If immediately after any conversion date (not being the conversion date in respect of the year 2000), taking into account all conversion rights exercised on that date, 75 per cent. or more in nominal amount of the convertible stock (which expression for the purpose of this sub-paragraph (I) shall include any further stock forming a single series therewith but exclude any of the convertible stock or such further stock purchased by the Company or any subsidiary and cancelled) shall have been converted the Company shall be entitled by not less than 30 nor more than 60 days' notice in writing to all stockholders in a form previously approved by the Trustee (a "compulsory conversion notice") given within 30 days after that conversion date, to convert, on the expiry date of such compulsory conversion notice, the whole (but not part only) of the convertible stock into ordinary share capital at the conversion rate applicable on such expiry date and in the event of such notice being given as aforesaid the holding of convertible stock of each stockholder shall, subject as hereafter in this sub-paragraph (I) provided, be automatically converted at such rate on such expiry date (and so that for this purpose such expiry date shall be deemed to be a conversion date and the provisions of this paragraph 3 shall apply accordingly save that if such notice be despatched by the Company not later than the second day before the interest payment date next following the conversion date first mentioned in this sub-paragraph (I) the interest otherwise payable on the convertible stock on that interest payment date shall be deferred pending the expiry date of such compulsory conversion notice and shall become due only in respect of that part of such convertible stock in relation to which the right specified in the proviso to this sub-paragraph (I) shall be duly exercised), provided that each stockholder shall have the right by giving written notice to the Company within 21 days after the service of a compulsory conversion notice to require the Company, in lieu of converting, to repay the whole or such part as he may in such notice specify of his convertible stock at par on the expiry date of the compulsory conversion notice together with interest accrued up to and including such date and in that event the Company shall be bound to repay such convertible stock together with accrued interest accordingly.

(J) If by the conversion date in or in respect of the year 2000 the Company shall not have exercised its rights under sub-paragraph (I) above, the Trustee may at its absolute discretion and without any responsibility for any loss occasioned thereby, within the period of 21 days following such conversion date, exercise all conversion rights not exercised on or before such conversion date at the conversion rate applicable on the date of exercise and sell for the benefit of the stockholders entitled thereto the ordinary shares allotted on such conversion, provided that the Trustee shall not exercise such conversion rights unless a financial adviser appointed for the purpose by it (acting as an expert and not an arbitrator) shall have stated in writing that in its opinion the exercise of such conversion rights and sale by the Trustee would be in the interests of the stockholders concerned as a body. Such period shall be deemed to be a conversion period and the date of exercise of such conversion rights shall be deemed to be a conversion date and the provisions of sub-paragraph (C) above shall apply accordingly.

(K) The convertible stock shall be known as 7½ per cent. convertible unsecured loan stock 2000 so long as any convertible stock shall remain capable of being converted. Thereafter the word "convertible" shall be omitted from the title.

(L) For the purpose of these particulars convertible stock for the time being unconverted shall pending its conversion be deemed to remain capable of being converted from the date of issue thereof up to and including the last date on which it could be converted or be treated as converted pursuant to any provision of this paragraph 3.

4 **Purchase and redemption**

(A) The Company or any subsidiary may at any time purchase convertible stock on any recognised stock exchange or by tender (available to all stockholders alike) or by private treaty, in each case at a price (inclusive of accrued interest but exclusive of all costs of purchase) which, if the convertible stock is then listed on The Stock Exchange shall not exceed the average of the middle market quotations therefor on The Stock Exchange (calculated by reference to The Stock Exchange Daily Official List) during the period of 10 business days immediately preceding the date of purchase or, in the case of a purchase on The Stock Exchange, at the market price thereof provided that such market price is not more than 5 per cent. above such average, and which, if the convertible stock is not then listed, shall not exceed 110 per cent. of the nominal amount thereof, but not otherwise.

(B) All convertible stock not previously redeemed, purchased or converted in accordance with any of the foregoing provisions will be redeemed on 30th September, 2000 or, if later, the date falling 30 days after the conversion date in or in respect of the year 2000, at par together with interest accrued up to and including that date, provided that, if the repayment date shall fall after 30th September, 2000 any stockholder may by giving notice to the Company not later than 25th September, 2000 require repayment of all or such part as he may in such notice specify of his convertible stock (not being convertible stock in respect of which a conversion notice has been duly delivered) on 30th September, 2000 at par together with interest accrued up to and including that date.

(C) All convertible stock redeemed, purchased or converted in accordance with any of the foregoing provisions shall be cancelled and shall not be reissued.

(D) The Company may exercise its rights and powers of redemption, purchase and compulsory conversion as regards the convertible stock and any further unsecured loan stock which may be issued pursuant to paragraph 7 below (not being a series which is identical and forms a single series with the convertible stock) at its sole discretion and without obligation to maintain the ratio between the nominal amounts for the time being outstanding of stock of any series.

5 **Restriction on borrowing**

(A) The Company will procure that so long as any part of the convertible stock remains outstanding the aggregate principal amount (including any fixed or minimum premium payable on final redemption) for the time being outstanding of all moneys borrowed (whether secured or not) of the Company and the subsidiaries (excluding moneys borrowed by the Company from a subsidiary or by a subsidiary from the Company or from another subsidiary) shall not at any time up to but excluding the date of the auditors' report on the audited accounts of the Company for its financial period ending on 31st March, 1986 exceed £10.5 million and shall not at any time on or after such date exceed an amount equal to one and one-half times the adjusted capital and reserves.

(B) When the aggregate amount of moneys borrowed required to be taken into account for the purposes of the limit contained in sub-paragraph (A) of this paragraph 5 on any particular day is being ascertained, all such moneys borrowed, denominated or repayable in a currency or currencies other than sterling shall be converted for the purpose of calculating the sterling equivalent at the rate(s) of exchange prevailing on that day in London provided that all of such moneys borrowed shall be converted at the rate(s) of exchange prevailing in London six months before such day if thereby the sterling equivalent thereof would be less (and so that for this purpose the relevant rate of exchange shall be taken as the spot rate of any bank approved by the Trustee for the exchange of the relevant currency into sterling at 11.00 a.m., London time, on the relevant day) or, to the extent that the repayment of such moneys borrowed is covered by a forward purchase contract with a bank approved by the Trustee, at the rate of exchange specified therein.

(C) For the purposes of the foregoing provisions of this paragraph, any company which it is proposed shall become or cease to be a subsidiary contemporaneously with any relevant transaction shall be treated as if it had already become or ceased to be a subsidiary.

6 **Restriction on the change in nature of business of the Company and the subsidiaries**

Except with the prior written consent of the Trustee the Company shall not and shall procure that the subsidiaries shall not (whether by acquisition or otherwise) make any alteration or any series of alterations to the nature of their

continued

THE PLANTATION TRUST CO. plc *continued*

respective businesses if as a result thereof the businesses of the Company and the subsidiaries for the time being taken as a whole and as a single business would to a material extent be other than the business of an investment trust company, provided that the extension of such businesses to include the ownership of a dealing company shall be deemed not to be such an alteration.

7 **Issues of further unsecured loan stock**

Subject to the terms hereof, provision will be made to enable further unsecured loan stock of the Company to be issued either so as to be identical in all respects with and to form a single series with the convertible stock or on such terms, including rights as to interest, conversion, premium, repayment and otherwise as the directors of the Company may determine.

Such further unsecured loan stock shall if identical and forming a single series with the convertible stock and may in any other case with the consent of the Trustee be constituted by a trust deed supplemental to the trust deed and shall accordingly be further stock.

No additional loan capital of the Company or any subsidiary shall be paid up in whole or in part by way of capitalisation of profits or reserves or be issued by way of collateral security.

8 **Modification of rights**

Stockholders will have power by Extraordinary Resolution (*inter alia*) to sanction any modification, abrogation or compromise of, or arrangement in respect of, their rights against the Company and to assent to any modification of the provisions of the trust deed. In addition, the Trustee may from time to time without the consent or sanction of the stockholders (but only if and insofar as in the opinion of the Trustee the interests of the stockholders will not be materially prejudiced thereby) waive or authorise on such terms and subject to such conditions as they shall deem expedient any breach or proposed breach by the Company of any of the covenants or provisions of the trust deed, or determine that any act or omission which would or might otherwise whether on its own or together with any other act or omission constitute an event of default under the trust deed shall not do so or assent to any modification of the provisions of the trust deed. Provision will be made for convening separate meetings of the holders of the convertible stock and each series of any further stock when the Trustee considers this appropriate.

9 **Trustee's indemnification and consents**

The trust deed will contain provisions for the indemnification of the Trustee and for its relief from responsibility in certain events. Any consent given by the Trustee may be given on such terms and subject to such conditions (if any) as the Trustee may in its absolute discretion think fit and, notwithstanding anything to the contrary in these particulars contained, may be given retrospectively.

10 **Removal, retirement and replacement of Trustee**

The trust deed will not contain any provisions relating to the removal of the Trustee but will permit the Trustee to retire at any time without assigning any reason.

The Company will have the power to appoint a new trustee but such new trustee shall be subject to the approval of an Extraordinary Resolution of the stockholders.

11 **Transfer**

The convertible stock will be registered and transferable in integral multiples of 50p nominal. Convertible stock certificates will be numbered consecutively.

Note: The trust deed will not contain any provision precluding the Company and the subsidiaries from disposing of any of their respective assets or, save as mentioned in paragraph 5 above, restricting borrowings which are secured or otherwise rank in priority to the convertible stock and will not provide for any subsidiaries to guarantee the convertible stock or for prescription periods.

SUMMARY OF THE MEMORANDUM AND ARTICLES OF ASSOCIATION

The Company's objects

The memorandum of association of the Company provides that the Company's principal objects are to carry on the business of an investment trust company in all its branches, and for that purpose to acquire and hold for investment shares, stock, debentures, debenture stock, bonds, obligations and securities issued or guaranteed by any company and debentures, debenture stock, bonds, obligations and securities issued or guaranteed by any government, sovereign, ruler, commissioners, public body or authority, supreme, municipal, local or otherwise, and units of and other rights in unit trusts, mutual funds, collective investment undertakings and other bodies and entities, in any such case, whether at home or abroad, and to leave money on deposit or otherwise with any bank or any other party and to act as and to perform all the functions of a holding company. The objects of the Company are set out in full in clause 4 of the memorandum of association which is available for inspection at the address specified in paragraph 8 under "General information" below.

Articles of association

The articles of association of the Company contain, *inter alia*, provisions to the following effect:–

(a) **Duration**

The directors shall convene an extraordinary general meeting of the Company to be held on or after 30th June and before 31st December, 1995 at which a resolution will be proposed to the members to consider whether the Company should be wound up voluntarily.

(b) **Voting**

Subject to disenfranchisement of a member in the event of non-payment of any calls or other moneys due and payable in respect of any shares or non-compliance with a statutory notice requiring disclosure as to beneficial ownership and subject to any special terms as to voting on which any shares may be held, on a show of hands every member present in person shall have one vote, and on a poll every member present in person or by proxy shall have one vote for every share held by him.

(c) **Borrowing powers**

The directors of the Company may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and, subject to the Companies Acts 1948 to 1981, to issue debentures, loan stock and other securities whether outright or as a collateral security for any debt, liability or obligation of the Company or of any third party. The articles of association contain a limit on the borrowing powers of the Company and any subsidiaries in the same terms *mutatis mutandis* as that stated in "Particulars of the convertible stock" above.

(d) **Capital reserve**

The directors of the Company shall establish a capital reserve and carry to the credit of such reserve appreciations arising on the sale, realisation, transposition or re-valuation of any investments or other capital assets of the Company in excess of the book value thereof or apply the same in providing for depreciation or contingencies or for some other capital purpose. Any losses realised on the sale of any investments or other capital assets may be debited in whole or in part against the capital reserve together with any taxation arising in consequence of the disposal of any asset. The capital reserve, together with all moneys in the nature of accretion to capital assets, shall be treated for all purposes as capital assets and shall not be available for dividend.

(e) **Variation of rights**

All or any of the rights or privileges attaching to any class of share may, subject to the provisions of the Companies Acts 1948 to 1981, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of such shares.

(f) **Directors**

(i) The minimum number of directors is two and the maximum ten.

(ii) No share qualification shall be required.

(iii) Subject to the provisions of the Companies Acts 1948 to 1981 the directors may from time to time appoint one or more of their number to be the holder of any executive office on such terms (including remuneration) as they think fit and, subject to the terms of any contract between him and the Company, may at any time revoke any such appointment. A director appointed as an executive chairman or as managing or joint managing director shall not, while holding such office, be subject to retirement by rotation or be taken into account in determining the rotation or retirement of directors. At each annual general meeting one-third of the directors who are subject to retirement by rotation (or the number nearest to but not exceeding one-third) shall retire by rotation.

(iv) Subject to the provisions of the Companies Acts 1948 to 1981 a director may hold any other office or place of profit under the Company (other than that of auditor) in conjunction with his office of director for such a period and on such terms (as to remuneration and otherwise) as the directors may determine and no director is disqualified by his office from contracting with the Company or is liable to account to the Company for any profit realised by any such contract by reason of such director holding that office. Any director may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a director.

(v) The remuneration of the directors shall be paid at the rate of £1,000 per annum for each director or such greater amount as shall be determined by ordinary resolution of a general meeting of the Company. Such remuneration shall be deemed to accrue from day to day. The directors may also be paid all expenses properly incurred by them in attending meetings of the directors, any committee of the directors, general meetings or separate meetings of the holders of any class of shares or otherwise in or with a view to the performance of their duties.

(vi) Any director who upon request renders any extra or special services shall be entitled to receive such sum as the directors may think fit for expenses and such remuneration as the directors may think fit either in addition to or in substitution for any other remuneration he may be entitled to receive.

(vii) Save in relation to certain specific exceptions provided in the articles of association (namely concerning the giving of security in respect of money lent by a director or obligations undertaken by him for the benefit of the Company or in respect of a debt or obligation of the Company for which he assumed responsibility under a guarantee or indemnity or by the giving of security, a contract by a director to underwrite shares, any contract with any other corporation or firm where the director's interest does not exceed 1 per cent. of any class of equity share capital or voting rights available to members, acts in relation to a pension scheme approved by the Inland Revenue or any matter connected with an employee share scheme other than the grant of any option or allocation of any shares or any other matter concerning his individual participation), a director shall not vote or be counted in the quorum present at a meeting in relation to any resolution on which he is debarred from voting in regard to any contract, transaction, arrangement or proposal in which he has to his knowledge a material interest. Subject to the provisions of the Companies Acts 1948 to 1981 the Company may by ordinary resolution suspend or relax such provision to any extent or ratify anything not duly authorised by reason of such provision.

(viii) No person shall be disqualified from being appointed a director and no director shall be required to vacate his office by reason only of the fact that he has attained the age of 70 years or any other age, nor shall it be necessary to give special notice or comply with any other special formality in connection with the appointment of a director over a specified age save that in the case of the appointment of a director who has attained the age of 70 his age shall be stated in the notice convening the general meeting (or in any accompanying document) at which he is proposed to be elected or re-elected.

(ix) The directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any director who has held any salaried office or place of profit with the Company or any subsidiary or to his widow or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance and may make payments for or towards the insurance of any such person.

(g) **Issue of securities**

Subject to the provisions of the Companies Acts 1948 to 1981, all unissued shares are at the disposal of the directors who may allot, grant options over or otherwise dispose of them to such persons, at such times and upon such terms and conditions as they may determine.

(h) **Transfer of shares**

The ordinary shares are in registered form and may be transferred by an instrument of transfer in any usual or common form, or in such other form as the directors may approve. The instrument of transfer shall be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. The directors may, in their absolute discretion and without giving any reason, refuse to register a transfer of any share which is not fully paid. The articles contain no restrictions on the transferability of fully paid ordinary shares, provided that transfers are in favour of not more than four transferees.

(i) **Dividends and distribution of assets on liquidation**

The holders of the ordinary shares are entitled *pari passu* amongst themselves but in proportion to the number of ordinary shares held by them to share in the whole of the profits of the Company paid out as dividends (which shall exclude all profits arising from the sale, changes, realisations or transpositions of investments or other capital assets) and the whole of any surplus in the event of the liquidation of the Company.

(j) **Dividends**

Any dividend unclaimed after a period of 12 years from the date it became payable may be forfeited by the directors.

GENERAL INFORMATION

1 **Share capital**

(a) The Company was incorporated in England as a public limited company under the Companies Acts 1948 to 1981 on 8th March, 1985 (registered number 1893940) with an authorised share capital of £4,000,000 divided into 16,000,000 ordinary shares of 25p each. On 11th March, 1985 two ordinary shares were issued at 95p each to the subscribers to the memorandum of association as nominees of Noble Grossart Limited.

(b) On 11th March, 1985 resolutions of the Company were passed whereby:–

(i) The directors were given authority pursuant to Section 14 of the Companies Act 1980 (expiring on 1st March 1990) to allot relevant securities (as defined in that Section) up to a maximum nominal value of £4,000,000;

(ii) a limited disapplication of Section 17(1) of the Companies Act 1980 was effected to enable this offer for sale to be implemented and a further limited disapplication thereof (expiring on the date of the first annual general meeting of the Company) was effected to permit the allotment of equity securities (as defined in that Section) pursuant to the authority referred to above in connection with any rights issue to the holders of equity securities and for the purposes of other allotments of equity securities up to an aggregate nominal value of £287,500; and

(iii) the Company altered its articles of association.

(c) On 11th March, 1985 the Company allotted to Noble Grossart Limited a further 199,998 ordinary shares at 92.88625p each and on 13th March, 1985 the Registrar of Companies issued a certificate under Section 4 of the Companies Act 1980 entitling the Company to do business and exercise borrowing powers.

(d) On 13th March, 1985 the Company by resolution of the board created warrants, having the rights set out under "Particulars of the warrants" above, to subscribe for 1,400,000 ordinary shares.

(e) On 13th March, 1985 the Company by resolution of the board created £3,500,000 nominal of 7½ per cent. convertible unsecured loan stock 2000 having the rights set out under "Particulars of the convertible stock" above.

(f) The share capital of the Company is as follows:–

	Ordinary shares
Issued to subscribers	2
Allotted to Noble Grossart Limited	199,998
Now being allotted	6,800,000
In issue following the offer for sale	7,000,000
Reserved for issue pursuant to the exercise of warrants	1,400,000
Reserved for issue pursuant to the conversion of the convertible stock	3,333,333
Reserved for options	525,000
Total	12,258,333
Surplus	3,741,667
Aggregate number presently authorised	16,000,000

Save as disclosed above since incorporation there have been no operations which have changed the amount of the issued capital of the Company.

(g) Save as disclosed in paragraph 3 below, or in relation to the warrants, convertible stock and options referred to in paragraph 4 below:–

(i) no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital of the Company; and

(ii) no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

(h) Following the completion of this offer for sale 9,000,000 ordinary shares will remain unissued. Save in the event of any accelerated rights of subscription or conversion arising in accordance with the rights attaching to the warrants, options or convertible stock, no material issue of ordinary shares of the Company (other than to shareholders *pro rata* to existing holdings) will be made within one year of the date of this document without the prior approval of shareholders in general meeting.

2 **Borrowings**

At the date hereof, apart from the convertible stock referred to herein, the Company has no loan capital outstanding, or created but unissued, and no term loans nor any outstanding mortgages, charges or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits, hire purchase commitments or guarantees or other contingent liabilities.

3 **Offer for sale arrangements**

By an agreement dated 13th March, 1985 and made between the Company, its directors and Noble Grossart Limited, Noble Grossart Limited agreed, subject to the Council of The Stock Exchange admitting the whole of the issued share capital, warrants and convertible stock of the Company to the Official List, to subscribe 6,800,000 ordinary shares in the Company (with warrants) at a subscription price of 92.88625p per share and £3,500,000 in nominal amount of the convertible stock at par and to offer the same together with the two subscriber shares and the 199,998 ordinary shares referred to in paragraph 1 above to the public in units of five ordinary shares, one warrant and £2.50 in nominal amount of the convertible stock for an aggregate consideration of £7.25 per unit. Under this agreement the Company will pay to Noble Grossart Limited a commission of 2 per cent. (plus value added tax) of the subscription price of the convertible stock and Noble Grossart Limited will pay sub-underwriting commission of 1¼ per cent. (plus value added tax) of the total offer for sale price of the 1,400,000 units and a fee of ¼ per cent. thereof (plus value added tax) to the brokers to the issue. The Company has agreed to pay brokerage of ½ per cent. (plus value added tax) to recognised banks, stockbrokers, solicitors and chartered accountants on accepted applications bearing their stamp (not being applications made pursuant to the sub-underwriting arrangements). The Company has also agreed to pay a fee to the brokers to the issue of £5,000 (plus value added tax) and all other costs and expenses of and incidental to the issue (including any applicable value added tax) including the expenses of printing, advertising, circulating this offer for sale, capital duty, registrars' charges, listing fees, the receiving bankers' charges and the fees of the reporting accountants and of the solicitors to the Company and to the offer for sale and to the Trustee for the holders of the convertible stock. These expenses, including the maximum brokerage, are estimated to amount to approximately £250,000 (excluding value added tax).

The agreement also contains provisions which permit it, as mentioned therein, to be terminated by Noble Grossart Limited, prior to the despatch of letters of acceptance, in the event of a material breach of any of the representations given to Noble Grossart Limited therein or if, prior to advertisement, Noble Grossart Limited determines that, by reason of a material adverse change in market conditions, the offer for sale should not proceed.

4 **Directors' and other interests**

(a) Save as referred to below no director has at the date hereof any interest (as defined in Part IV of the Companies Act 1981) in the share capital of the Company.

Under option agreements dated 13th March, 1985, the Company has granted to the directors options to subscribe for ordinary shares at 100p per share as set out below:–

	Ordinary shares
Edwin Hadsley-Chaplin	20,000
Derek Baer	20,000
John Campbell	190,000
Stephen Kershaw	105,000
David Pinsent	190,000
	525,000

Subject to accelerated rights to exercise the options in the event of a take-over or winding up, the options will be exercisable between 1987 and 1992.

(b) Save as disclosed in sub-paragraph (c) below there are no transactions which have been entered into by the Company since incorporation in which any of the directors are interested and which are or were unusual in their nature or conditions or significant in relation to the business intended to be carried on by the Company.

(c) The promoters of the Company are David Hume Securities Limited, Noble Grossart Limited, Kitcat & Aitken and the directors. John Campbell is a director of Noble Grossart Limited which is underwriting the offer for sale as set out in paragraph 3 above. David Hume Securities Limited, a company controlled by David Pinsent, will be receiving a fee of £12,000 (plus value added tax) in respect of services in connection with the offer for sale and will receive the fees pursuant to the agreement set out in sub-paragraph (f) below. Stephen Kershaw will be receiving remuneration pursuant to the agreement set out in sub-paragraph (e) below. David Hume Investments Management Limited, in which certain of the directors and Noble Grossart Limited are interested as mentioned under "Investment management" above, will, subject to the investment management agreement referred to in paragraph 5 below becoming effective, receive fees thereunder. Save as aforesaid no amount or benefit has been paid or given to any such promoter since the incorporation of the Company and none is intended to be paid or given other than in respect of directors' fees or other fees for services which may be rendered in the future.

(d) The directors are aware of the following interests which, immediately following the offer for sale, will, or may depending on the level of applications, amount to 5 per cent. or more of the units of the Company:

	Units	Percentage of units under the offer for sale
Funds managed by Save & Prosper Securities Limited	140,000	10·00
Sun Life Assurance Society	137,950	9·85
Scottish Northern Investment Trust PLC	103,500	7·39
Barclays Unicorn Group	70,000	5·00
G.T. Management Limited	70,000	5·00

Save as disclosed above, the directors are not aware of any other persons who, following the offer for sale, would be required to disclose an interest in the ordinary share capital of the Company under Part IV of the Companies Act 1981.

(e) By a service agreement dated 13th March, 1985 between the Company, Stephen Kershaw and David Hume Investment Management Limited, Stephen Kershaw was engaged by the Company pending the investment management agreement referred to in paragraph 5 below becoming effective. If such investment management agreement does not become effective, Stephen Kershaw will be employed by the Company until 12th March, 1988 and thereafter unless and until determined by 12 months' notice given by either party. The current rate of salary is £25,000 per annum and in addition he is entitled thereunder to a non-contributory pension arrangement and a car. Upon the investment management agreement becoming effective, Stephen Kershaw will be employed by David Hume Investment Management Limited on like terms. Save as aforesaid no director has a service contract with the Company.

(f) By an agreement dated 13th March, 1985 between the Company, David Hume Securities Limited and David Hume Investment Management Limited, David Hume Securities Limited was engaged by the Company, pending the investment management agreement referred to in paragraph 5 below becoming effective, to provide office and advisory services. If such investment management agreement does not become effective David Hume Securities Limited will be engaged by the Company until 12th March, 1988 and thereafter unless and until determined by 12 months' notice given by either party. The fee payable to David Hume Securities Limited is £5,000 per annum (plus value added tax) subject to review. Upon the investment management agreement becoming effective, David Hume Securities Limited will be engaged by David Hume Investment Management Limited on like terms.

(g) It is estimated that for the period ending 31st March, 1986 the aggregate of the other emoluments of the directors will be approximately £4,500.

5 **Material contracts**

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company since its incorporation and are, or may be, material:–

(a) the offer for sale agreement referred to in paragraph 3 above;

(b) the management agreement dated 13th March, 1985 between the Company and David Hume Investment Management Limited mentioned under "Investment management" above in respect of the provision of investment management services to the Company for a quarterly fee of 0.2 per cent. of the value of the Company's gross assets, such fee being payable in advance. The agreement becomes effective upon David Hume Investment Management Limited obtaining relevant principal's and representatives' licences from the Department of Trade under the Prevention of Fraud (Investments) Act 1958. The agreement is for a duration of three years and thereafter unless and until determined by 12 months' notice given by either party; and

(c) the option agreements dated 13th March, 1985 between the Company and each of the directors referred to in paragraph 4 above.

6 **Taxation**

(a) Under current United Kingdom tax legislation, the Company is required when paying a dividend to remit to the Inland Revenue an amount of Advance Corporation Tax ("ACT") at a rate which is currently 3/7ths of the dividend paid less the amount of any tax credit attaching to dividends received from United Kingdom resident companies. Consequently, the ACT related to a dividend currently equals 30 per cent. of the sum of the cash dividend plus the ACT. For non-corporate shareholders resident in the United Kingdom, an amount equal to the ACT paid is available as a tax credit which such shareholders may be able to set off against their total income tax liability or, in appropriate cases, reclaim in cash. A United Kingdom resident corporate shareholder will not be liable to United Kingdom corporation tax on any dividend received. Persons should consult their own tax advisers about their personal situations and the possibility of claiming tax credits equivalent to the ACT paid on the dividend.

Whether shareholders who are resident in countries other than the United Kingdom are entitled to a payment from the Inland Revenue of a proportion of the tax credit in respect of dividends on such shares depends in general upon the provisions of any double tax convention or agreement which exists between such countries and the United Kingdom.

Persons who are not resident in the United Kingdom should also consult their own tax advisers on the possible applicability of such provisions, the procedure for claiming payment and as to the relief or credit which may be claimed in the jurisdiction in which they are resident.

(b) The Company's income after deducting loan interest and management expenses and excluding dividends received from other United Kingdom companies will be subject to United Kingdom corporation tax. Income arising from outside the United Kingdom may suffer foreign tax which will generally be available to reduce United Kingdom tax payable, either by way of a credit against United Kingdom corporation tax or by reducing taxable income.

(c) The directors consider that the Company will not be a close company immediately following the completion of this offer for sale.

(d) In the event of a winding up of the Company the directors have been advised that, under present law, the receipt of distributions in the liquidation of the Company would operate as a disposal or part disposal of shareholdings in the Company for the purposes of United Kingdom taxation of chargeable gains. If thought desirable at the time, an application would be made for any appropriate tax clearances.

(e) The directors have been advised that under current law and practice for the purposes of United Kingdom taxation of chargeable gains:–

(i) the cost to shareholders of subscribing ordinary shares with warrants will be apportioned on the basis of their respective values, which should be established by reference to the market value of such ordinary shares and warrants on the first day of dealing; the cost of the convertible stock will be at par;

(ii) disposal (a term which includes abandonment) of a warrant prior to exercise of the subscription right conferred by the warrant may give rise to a gain or loss by reference to the acquisition cost of the warrant;

(iii) the exercise of the subscription rights conferred by the warrants will not constitute a disposal of an asset, but their cost will be added to the amount paid on exercising those rights in computing any gain or loss on disposal of the ordinary shares acquired pursuant thereto; and

(iv) the warrants will not constitute "wasting assets" under Section 138 of Capital Gains Tax Act 1979 and, on their disposal or abandonment, the cost attributable to the warrants, calculated as above, will be allowed in computing any gain or loss.

(f) Shareholders may be liable to United Kingdom taxation on chargeable gains arising from the sale or other disposal of ordinary shares.

(g) The interest arising on the convertible stock may be subject to United Kingdom income tax or corporation tax depending on the status of the holder.

The conversion of the convertible stock into ordinary shares will not constitute a disposal for the purposes of United Kingdom taxation of chargeable gains and such shares will be deemed to have been acquired as and when the convertible stock was acquired.

Disposal of the convertible stock prior to conversion may give rise to a capital gain or loss, since there is no exemption if such stock is held for more than 12 months. The Chancellor has announced that an "accrued income scheme" will be introduced in the forthcoming Finance Bill and accordingly part of the receipt on a disposal representing accrued interest may be treated as income.

7 **General**

(a) The Company has not since its incorporation been engaged in and is not currently engaged in any litigation or arbitration nor, so far as the directors are aware, is there any litigation or claim pending or threatened against the Company.

(b) Save as disclosed herein there has been no significant change in the trading or financial position of the Company since its incorporation.

(c) Deloitte Haskins & Sells have given and have not withdrawn their written consent to the issue of this document with the inclusion therein of their accountants' report set out above in the form and the context in which it is included.

(d) It is the intention of the directors so to conduct the affairs of the Company that it satisfies the requirements for qualification as an investment company laid down in Section 41 of the Companies Act 1980; the Company has given notice to the Registrar of Companies of its intention to carry on business as an investment company pursuant to that Section.

(e) The principal place of business of the Company is at 8 Crescent, London EC3N 2LY. Save in respect of the service contract arrangement relating to Stephen Kershaw referred to in paragraph 4 above, the Company does not have and has not had since its incorporation any employees.

(f) Each dividend on the ordinary shares will be paid to those holders of ordinary shares on the register of members on the record date for such dividend. Such record date will normally be 4 to 6 weeks before the date of payment.

(g) The offer for sale is made by Noble Grossart Limited, merchant bankers, registered in Scotland (number 46205), whose registered office is at 48 Queen Street, Edinburgh, EH2 3NR.

(h) It is expected that the ordinary shares, warrants and convertible stock will be admitted to listing on 20th March, 1985, that fully paid renounceable letters of acceptance will be posted to successful applicants under the offer for sale on 25th March, 1985, that dealings in the units will commence on 26th March, 1985 and that dealings in the ordinary shares, warrants and convertible stock separately will commence on 25th April, 1985.

(i) Arrangements have been made for the units now being offered for sale to be registered by the Company free of stamp duty in the names of the successful applicants or the persons in whose favour letters of acceptance have been renounced provided that, in cases of renunciation, letters of acceptance (duly completed in accordance with the instructions contained therein) are lodged for registration not later than 26th April, 1985. Share, warrant and convertible stock certificates will be posted on 24th May, 1985.

8 **Documents available for inspection**

Copies of the following documents will be available for inspection at the offices of Stephenson Harwood, Saddlers' Hall, Gutter Lane, Cheapside, London EC2V 6BS during normal business hours on any weekday (Saturdays excepted) for 14 days from the date of this document:–

(a) the memorandum and articles of association of the Company;

(b) the report from the auditors and reporting accountants set out above;

(c) the contracts for services referred to in paragraph 4 above;

(d) the material contracts referred to in paragraph 5 above;

(e) the consent referred to in paragraph 7 above; and

(f) a draft (subject to modification) of the trust deed to constitute the convertible stock.

Dated 13th March, 1985

APPLICATION PROCEDURE

1 **Numbers of units which may be applied for**

Applications must be made on the application form below in accordance with the terms thereof, and must be for a minimum of 10 units (referred to below as "units") and in the following multiples:

Applications for not less than 10 units and not more than 100 units:	in multiples of 10 units
Applications for over 100 units:	in multiples of 50 units

2 **Submission of application forms and payments**

Each application form must be accompanied by a separate cheque or bankers' draft for the full amount payable on application and be forwarded or handed in to Barclays Bank PLC, New Issues Department, P.O. Box 123, Fleetway House, 25 Farringdon Street, London EC4A 4HD so as to arrive not later than 10 a.m. on Thursday 21st March, 1985. Cheques and bankers' drafts which must be drawn in sterling on a branch in the United Kingdom, the Channel Islands or the Isle of Man of a bank which either is a member of the London or Scottish Clearing Houses Association or which has arranged for its cheques and bankers' drafts to be cleared through the facilities provided by the members of those Clearing Houses and must bear the appropriate sorting code number in the top right corner, must be made payable to "Barclays Bank PLC" and crossed "Not Negotiable" and must represent payment in full of the application price. Photostat copies of application forms will not be accepted.

3 **Introductory commissions payable**

A commission of ½ per cent. (plus value added tax) will be allowed to recognised banks and stockbrokers on accepted applications bearing their stamp and value added tax registration number (if applicable). This commission will not, however, be paid in respect of applications received from sub-underwriters of the offer for sale to the extent of their respective sub-underwriting commitments.

4 **Undertakings by applicants**

The right is reserved to present all cheques on receipt and to retain letters of acceptance and excess application money pending clearance of applicants' cheques. Due completion and delivery of an application form, accompanied by the necessary cheque, shall constitute an undertaking that the cheque will be honoured on first presentation; a provision to that effect is contained in the application form. Noble Grossart Limited reserves the right to reject or scale down any application for units and, in particular, to reject applications which in its opinion are multiple or suspected multiple applications and applications for an undue number of units. Applications will be irrevocable until 25th March, 1985 and may only be revoked after that date to the extent that they have not been accepted prior to receipt of notice of revocation.

5 **Conditions**

Formal acceptance of applications will be effected by notification of the basis of allocation to The Stock Exchange. Acceptance of applications will also be conditional on the ordinary shares, warrants and convertible stock being admitted to the Official List of The Stock Exchange on or before 22nd March, 1985 (subject only to acceptance). Moneys paid in respect of applications will be returned if such admission is not granted by that date and in the meantime will be retained in a separate bank account. If any application is not accepted, or is scaled down, the application moneys or the balance thereof, as the case may be, will be returned by cheque through the post (in all cases without interest) at the applicant's risk. By completing and delivering an application form each applicant will be confirming that he is not relying on any information or representation in relation to the Company other than as contained in the offer for sale document and accordingly he will be agreeing that no person responsible for such document shall have any liability for any such information or representation; he will also be agreeing that he is not entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of his application.

6 **Renounceable letters of acceptance**

Fully paid renounceable letters of acceptance in respect of units will be sent by post to successful applicants at their risk. It is expected that letters of acceptance will be posted to successful applicants on Monday 25th March, 1985 and that dealings in units will commence on 26th March, 1985. The last date for registration of renunciation is 26th April, 1985; the ordinary shares, warrants and convertible stock will thereafter be registered and will then (but not before) be transferable separately. Share certificates, warrant certificates and convertible stock certificates will be despatched on 24th May, 1985. Pending the issue of certificates, instruments of transfer of ordinary shares, warrants and convertible stock will be certified against the respective registers.

7 **The warrants and convertible stock**

The ordinary shares now being offered for sale rank in full for all dividends hereafter declared or paid on the ordinary share capital of the Company. The Company has created warrants carrying rights, exercisable during the period of 28 days prior to 31st August in any of the years 1986 to 1995, to subscribe for a total of 1,400,000 further ordinary shares. Holders of the convertible stock will (subject as provided in the trust deed to constitute the convertible stock) be entitled to convert such convertible stock at the rate of one ordinary share for every 105p nominal of convertible stock. Subject as aforesaid the conversion rights may be exercised during the month of August in any of the years 1988 to 2000 and the redemption date will be 30th September, 2000.

8 **Availability of offer for sale documents and separate application forms**

Copies of the offer for sale document, which comprises listing particulars with regard to the Company given in compliance with The Stock Exchange (Listing) Regulations 1984, and of separate application forms are available, free of charge, at:

Noble Grossart Limited 48 Queen Street, Edinburgh EH2 3NR and 17 Lincoln's Inn Fields, London WC2A 3ED	**Kitcat & Aitken** The Stock Exchange, London EC2N 1HB

and at the following offices of Barclays Bank PLC
114 Fenchurch Street, London EC3P 3HY
90 St Vincent Street, Glasgow G2 5UQ
63 Colmore Row, Birmingham B3 2BY
17 York Street, Manchester M60 2AU
37 Park Row, Leeds LS1 1HS
40 Corn Street, Bristol BS99 7AJ

In addition, copies of the offer for sale document will be available at The Stock Exchange, Company Announcements Office, London EC2N 1MA. It is also intended to publish the offer for sale document in full in the Financial Times and The Scotsman on Monday, 18th March, 1985.

APPLICATION FORM

THE APPLICATION LIST FOR THE UNITS NOW OFFERED FOR SALE WILL OPEN AT 10 A.M. ON THURSDAY, 21st MARCH, 1985 AND MAY BE CLOSED AT ANY TIME THEREAFTER.

This application form when completed must be forwarded or handed in to Barclays Bank PLC, New Issues Department, P.O. Box 123, Fleetway House, 25 Farringdon Street, London EC4A 4HD, together with a cheque/bankers' draft for the full amount payable, so as to be received not later than 10 a.m. on Thursday, 21st March, 1985. Photostat copies of application forms will not be accepted. A separate cheque or bankers' draft must accompany each application form. Full details of the application procedure are set out above.

THE PLANTATION TRUST COMPANY plc

(Registered in England under the Companies Act 1948 to 1981 number 1893940)

Offer for Sale by Noble Grossart Limited

of 1,400,000 units (each unit comprising five ordinary shares, one warrant and £2.50 nominal of convertible stock) at £7.25 per unit payable in full on application

*Number of units applied for	**Amount enclosed at £7.25 per unit	Stamp of recognised bank or stockbroker claiming commission
	£	VAT No.

*Applications must be for a minimum of 10 units (each unit comprising five ordinary shares, one warrant and £2.50 nominal of convertible stock) in The Plantation Trust Company plc (referred to in this application form as "units") or for the following multiples of units: multiples of 10 units from 10 units up to 100 units; thereafter in multiples of 50 units.

To: NOBLE GROSSART LIMITED

I/We enclose a cheque/bankers' draft payable to "Barclays Bank PLC" for the above-mentioned sum**, being the full amount payable on application at £7.25 per unit for the above stated number* of units, and I/we apply to purchase that number of units. I/We hereby undertake and agree to accept the same, or any lesser number of units in respect of which this application may be accepted, upon the terms of your offer for sale document dated 13th March, 1985 and subject to the memorandum and articles of association of The Plantation Trust Company plc ("the Company"). I/We hereby authorise you to send me/us a fully paid renounceable letter of acceptance for the number of units in respect of which this application is accepted and/or a cheque for any moneys returnable to me/us by ordinary first class post at my/our risk to the address first given below and to procure my/our name(s) to be placed on the registers of the Company as holder(s) of the said units in so far as they have not been effectively renounced.

In consideration of Noble Grossart Limited agreeing that it will not, prior to 26th March, 1985, sell any units the subject of the Offer for Sale to any person other than by one of the procedures referred to therein, I/we agree that this application shall be irrevocable until 26th March, 1985 and that this paragraph shall constitute a collateral contract between me/us and Noble Grossart Limited which shall become binding upon despatch by post or delivery of this application form to Barclays Bank PLC, New Issues Department, P.O. Box 123 Fleetway House, 25 Farringdon Street, London EC4A 4HD, duly completed.

I/We declare that due completion and delivery of this application form, accompanied by a cheque/bankers' draft, constitutes an undertaking that such cheque/bankers' draft will be honoured on first presentation. I/We acknowledge that any letter of acceptance and any moneys returnable may be held pending clearance of applicants' cheques and/or bankers' drafts.

FOR OFFICE USE ONLY
1. Letter of acceptance No.
2. Units accepted
3. Amount received on application £
4. Amount payable on units accepted £
5. Amount returned £
6. Return cheque No.

PLEASE SIGN HERE 1. *Signature*..............................
Dated..............................March, 1985.

Please pin top left corner of cheque/draft here

Forename(s) (in full)..............................
Surname..............................
(Mr., Mrs., Miss, or Title)
Address..............................
....
.... Post Code..............................

Please use BLOCK CAPITALS OR TYPE FOR NAMES AND ADDRESSES. ALL JOINT APPLICANTS MUST SIGN AND GIVE NAMES AND ADDRESSES BELOW. In the case of a corporation this form should be signed by a duly authorised officer who should state his representative capacity. If this form is signed by power of attorney, such power of attorney or a duly certified copy thereof must accompany this form.

Please use BLOCK CAPITALS or TYPE

2. *Signature*..............................
Forename(s) (in full).............................. Surname..............................
(Mr., Mrs., Miss or Title)
Address..............................
.... Post Code..............................

3. *Signature*..............................
Forename(s) (in full).............................. Surname..............................
(Mr., Mrs., Miss or Title)
Address..............................
.... Post Code..............................

4. *Signature*..............................
Forename(s) (in full).............................. Surname..............................
(Mr., Mrs., Miss or Title)
Address..............................
.... Post Code..............................

NO RECEIPT WILL BE ISSUED FOR THE PAYMENT ON APPLICATION, but an acknowledgement will be forwarded through the post in due course, at the risk of the applicant(s), in the form of a fully paid renounceable letter of acceptance for all the units applied for, or in the form of a fully paid renounceable letter of acceptance for the units applied for and accepted and a cheque for any surplus application moneys, or by the return through the post of the application moneys.

APPOINTMENTS

Executive change at NEI Parsons

Mr Richard H. Maudslay has been nominated managing director of NEI PARSONS, the trading company of NEI specialising in large turbine generators for nuclear and fossil-fired power stations. He takes up the post on May 1, in succession to *Dr R. Hawley*, who was recently appointed to the NEI board. *Mr Maudslay* joined Parsons Peebles of Edinburgh as e systems analyst and later moved to Reyrolle Belmos (an associated company). *He* returned to Parsons Peebles in 1972 as systems and programming manager, aod in 1974 became production manager of *Parsons Peebles* Power Transformers. Io 1978, following the merger *which created* NEI, he moved to Mexico to found and operate *as general manager* a new jointly-owned company known as Transformadores Parsons Peebles de Mexico.

★

Joioing the partnership of WATSON, FARLEY AND WILLIAMS are Mr Geoffrey Wynne and Mr Neil Cuthbert. They were head and deputy head of the Royal Bank of Canada legal department in London.

★

Mr Walter Jewitt and Mr Berverley Ditcham have been appointed directors of the TALBEX GROUP. Mr Jewitt has been managing director of the company's principal operating division, Osmood Aerosol since 1965. Mr Ditcham has been chairman of Osmond Aerosol for the past two years. Both retain their current positions. Mr Peter Neill, has resigned as e director of the gronp. Mr David Green remains group executive chairman.

★

Mr R. P. Good has been appointed a director of NEW COURT AMERICAN PROPERTY FUND MANAGERS, the company managing N. M. Rothschild's property unit trust for pension funds and charities. Mr Good is investments manager of Thorn EMI Pension Trust.

★

C. E. HEATH has eppointed as additional directors Mr P. W. J. Duffield, a partner of Travers Smith, Braithwaite and Co., and Mr P. E. Presland.

★

VAUX GROUP has appointed Mr Charles Tidbury as e non-executive director. He recently retired as chairman of Whitbread and Co., but remains e *director of that company.* Mr Tidbury is also a director of Barclays Bank, Nabisco Group, Boddington's Breweries and Marston Thompson and Evershed.

★

Mr James Burton has been appointed managing director of SOUND ATTENUATORS, leading subsidiary in the Salex International group. He was *director* of CompAir Industrial and managing director of Reavell, Ipswich.

★

GOOD RELATIONS GROUP has appointed Mr Peter Gorley *director of management* development from April 22. He joins from *Hay-MSL Management* Consultants Group.

★

At RENTOKIL GROUP Mr Michael Gibbes, previously general manager of the UK pest control division, has been appointed regional managing director of the Group's Regioo 2 being *responsible* for all Rentokil operations in Germany, *France,* Switzerland, Spain, Greece, Austria and Italy. Mr *Bryn Hodson, previously* regional manager of UK pest control is appointed general manager Asia, and also has responsibility for UK property and vehicles.

★

ERNST & WHINNEY has appointed as partners in the firm's London practice Mr Christopher Bishop, who will merge his practice in Ashford, Kent, with that of Ernst & Whinney; Mr David Essex, who has been financial controller of British Aerospace since 1982, and Mr Michael Harding, who will move to the London office from Frankfurt.

★

Mr Richard Robinson has been eppointed managing director of LEIGH PAGE MANAGEMENT, Michael Page Partnership's UK financial recruitment company. He joined the company in 1979 and succeeds Mr William McGregor who becomes chairman and chief executive, of the newly-acquired Grosvenor Stewart.

★

Mr R. A. S. Macdonald has joined BLACKWOOD HODGE as group finance director. He was director of finance, International Harvester UK.

★

Mr Alan Watson has been appointed deputy chairman of STERLING PUBLIC RELATIONS. He was chief executive of Charles Barker City from 1980 to 1983. He resigned in 1983 to fight the general election and has since built up his own consultancy. He has now relinquished a *non-executive* directorship of Charles Barker City. He is this year's *president* of the Liberal Party.

★

Mr Monty Hyams, founder of Derwent Publications, has been appointed *to the board of* INTERNATIONAL THOMSON ORGANISATION. From April 1 he will become non-executive chairman of Derwent and will be succeeded as chief executive by Mr Paul Hunt, currently managing director.

★

ROCKWARE GROUP has appointed Mr Richard N. D. Langdon to the group board as a non-executive director. Mr Langdon, who retired recently *as senior partner* from Spicer & Pegler, is currently chairman of Time Products, First National Finance Corporation, Industrial Parker Holdings, Finlay Packaging and Hammond & Champness.

★

Mr Anthony (W. A.) Cooper has been appointed an assistant general manager at MIDLAND BANK INTERNATIONAL and an executive *director* of Midland Bank Group International Trade Services, with responsibility *for* the Midland International Trade Services companies. Mr Thomas Robson has been appointed an assistant general manager, with responsibility for trade and export finance. Mr Adrian (G. A.) Robinson has been appointed *corporate finance director,* with responsibility for aerospace in *succession* to Mr Cooper. He rejoins Midland from Airbus Industrie, *Paris where he was* sales finance director.

★

Mr Norman Bainbridge, deputy managing director of Willshier Northern, has been elected the new president of the northern region of the BRITISH EMPLOYERS' CONFEDERATION.

Mr Jeffrey C. W. Wright has been appointed an associate director of STEEL BURRILL JONES.

★

Mr Ramsay Johnson, formely *property development manager* of Fine Fare in Scotland, has been eppointed property director of Wm LOW & CO.

★

CROTHALL & CO, hospital support services specialist in Pritchard Services Group, has appointed Mr Allan Ward as managing director. He has been with the group for seven years.

WEEK'S FINANCIAL DIARY

The following is e record of the principal business and financial engagemeots during the week. The board meetings are mainly for the purpose of considering dividends and official *indications* are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—

Heavitree Brewery, Imperial Hotel, Exeter, 11.30

BOARD MEETINGS—

Finals:

[illegible]

Barratt Devs
Paterson Zochonis
Star Computer

DIVIDEND & INTEREST PAYMENTS—

Brooke Tool Engineering 1p
Citicorp Overseas Finance Corp NV Gtd Fltg Rate Sub Cap Nts 1996 $228.13

[illegible]

Bowater Inds
Britoil
Bronx Eng
Church
Clifford's Dairies
Delaney
House of Lerose
Jaguar
Jones (A.)
Noble and Lund
Plan Invest
Rentokil
Rockware
Trinity Intnl
Wates City of London Props

Interims:

Arbuthnot Dollar Inc Tst
Arbuthnot Government Secs Tst
HTV
Minerals Oils and Resources Shs Fund
Sanderson Murray and Elder
Sirdar

[illegible]

هكذا من الأصل

THE WEEK IN THE COURTS

Acting as umpire over the right to play rugby

FEW THINGS matter more in a land of Anglo-Saxon attitudes than ball games. It comes, therefore, as no surprise to find a Lord Justice of Appeal saying that litigation about the right to play a game of rugby football on a public recreation ground raises a point of fundamental importance and a conflict between two principles of a democratic society. But does it?

The dispute which gave rise to that remark is between the Leicester City Council and some members of the Leicester City Rugby Football Club. On August 21, 1984 the council suspended for 12 months the club's licence to use the city's Welford Road recreation ground. Six of the club's members decided to test the legality of the ban. On September 27, 1984 Mr Justice Forbes rejected their claim that the ban was unlawful.

Knockout blow

Last week, on March 14, in *Wheeler and Others v Leicester City Council* (Times Law Report March 15, 1985) the Court of Appeal upheld the judge's ruling, by a majority of two to one.

The matter does not end there. The six members have been granted leave to appeal to the House of Lords. Time alone will tell whether on that occasion they will suffer a knockout blow or will score a winning try.

What made the council decide to stop the club's games of rugger on the public recreation ground?

The background to the ban was the council's firm opposition to sporting contacts with South Africa so long as the policies and practices of apartheid prevail there. Among the citizens of Leicester are members of ethnic communities to whom apartheid is abhorrent.

Three of the club's members had taken part in a tour of South Africa under the auspices of the English Rugby Football Union.

The council requested the club to urge the union and those members to cancel the tour. The club replied that despite its hatred of apartheid, it would neither condemn the tour nor discourage its members from taking part in it. The club's attitude was that each individual member had a personal choice where and when to play rugger.

These are issues which it is appropriate to consider and discuss this week — a week in which local authorities up and down the country intend to devote to action against apartheid. But to what extent are court proceedings a suitable method of examining and debating such complicated and controversial matters?

In this country, a judge acts as umpire in a contest conducted on each of the opposing sides by advocates. He has to declare and find the relevant facts on the basis of such evidence as the parties to the dispute are able to put before him. He has to apply established legal principles to those facts.

Neither the legal system nor the legal framework of rules and remedies nor the legal cast of mind of judges, counsel and solicitors are designed for the cut and thrust of sophisticated political inquiry, polemics and debate.

Discretion

The issues which were under consideration in the Queen's Bench Divisional Court and the Court of Appeal were different. Had the Leicester council legal power as a local authority to ban the club from using a public recreation ground?

If the council had the power, did it with a discretion conforming with legal rules for the exercise of a discretion? In the exercise of its discretion, did it take into account all relevant matters, or did it consider any irrelevant matter? Was the council's decision to ban the club an exercise of discretion which no reasonable council considering in the proper manner all relevant factors would ever have supported?

The council rested its case on the provisions of section 71 of the Race Relations Act 1976. The section states that, "It shall be the duty of every local authority to make appropriate arrangements with a view to securing that their various functions are carried out with due regard to the need—(a) to eliminate unlawful racial discrimination; and (b) to promote equality of opportunity, and good relations, between persons of different racial groups."

One of the council's functions was to manage the Welford Road Recreation Ground. The club was an important local institution. A firm stand on relations with South Africa was likely to encourage rather than deter good relations among the city's different ethnic groups. The club's refusal to discourage its members from taking part in a South African tour was likely to weaken rather than to strengthen their relations. The argument for the council was that a temporary ban on the club from using the public recreation ground was a lawful step in support of a reasonable policy.

The minority opinion in the Court of Appeal, expressed by Lord Justice Browne-Wilkinson, was that the ban was unlawful. In imposing it, the council took into account legally irrelevant matters. A general power conferred on an elected public body to administer public property or money could not be used lawfully to punish those who declined to support that public body's current views on some contentious topic. If the council's decision was lawful, it created a dangerous risk to such fundamental freedoms as the right to freedom of speech and conscience enjoyed by every individual in a democratic society.

Section 71 of the Race Relations Act 1971 contained no express words or provisions restricting or destroying those freedoms.

The Court of Appeal's majority opinion, expressed by Lord Justice Ackner and Sir George Waller, was that, irrespective of the merits of the two different points of view concerning the value of cutting all sporting links with South Africa, the council could not be regarded as acting unreasonably or perversely in imposing the ban. The ban was within the council's legal powers.

Ban on club

Neither the majority nor the minority opinion seems entirely satisfactory. A ban against a private club on the use of a municipal sports-ground is arguably neither an infringement of any fundamental freedom of speech and conscience nor an appropriate arrangement to promote good relations between persons of different racial groups living in the particular municipality. This may be a result of the dispute taking a different form during court proceedings than beforehand, because the previous basis is not susceptible to court proceedings in the present state of the legal system. If this is an accurate diagnosis of the situation, then appropriate measures should be taken to remedy it.

Justinian

Parliamentary business this week

TODAY

Commons: Until 7 pm, debate on a motion on EEC proposals for the 1985-86 CAP prices. Afterwards, motions relating to the National Health Service (General Medical and Pharmaceutical Services) Amendment Regulations for England and Wales and also for Scotland.

Lords: Reserve Forces (Safeguard of Employment) Bill, Committee. Shipbuilding Bill, Third Reading. Immobilisation of Vehicles Illegally Parked (London Boroughs of Westminster and Kensington and Chelsea) Continuation Order 1985. Motion for approval. Local Government (Choice of Electoral Systems) Bill, Committee. Road Races (Northern Ireland) Order 1977 (Amendment) Bill, Second Reading. Licensing (Amendment) Bill, Committee. Pneumoconiosis, Byssinosis and Miscellaneous Diseases Benefit (Amendment) Scheme, 1985. Motion for approval. Unstarred questions on the steps the government are taking to prevent and control the spread of the disease AIDS.

Select Committees: Home Affairs: Sub Committee on Race Relations and Immigration. Subject: The work of the Immigration and Nationality Department of the Home Office. Witness: UK Immigrants Advisory Service (Room 8, 4.15 pm).

Environment — Subject: Radioactive waste. Witness: Central Electricity Generating Board (Room 20, 4.30 pm).

Treasury and Civil Service—Subject: Long-term trends in resources and public expenditure. Witnesses: British Medical Association; The King's Fund (Room 15, 4.30 pm).

Public Accounts—Subject: National Health Service supplies and the Pharmaceutical Price Regulation Scheme. Witness: Sir Kenneth Stowe, Permanent Secretary, DHSS (Room 16, 4.45 pm).

TOMORROW

Commons: The Budget statement. Opposed private business after 7 pm.

Lords: Trustee Savings Bank Bill, Committee. National Heritage (Scotland) Bill, Third Reading. Prayer to annul the NHS (General Medical and Pharmaceutical Services) Amendment Regulations and NHS (General Medical and Pharmaceutical Services) (Scotland) Amendment Regulations 1985, together with a motion that the House, while accepting the need for further savings in the NHS drugs bill, deplores the decision to deny general practitioners the right to prescribe the medicines which they think most suitable for their patients.

Select Committees: Education, Science and the Arts—Subject: Achievement in primary schools. Witness: The Society of Education Officers (Room 15, 11.30 am).

Joint Committee — Petition against Okehampton By-Pass, Special Procedure Orders (Room 3, 10 am).

WEDNESDAY

Commons: Continuation of the Budget debate.

Lords: Debate on a motion calling on the Government to introduce legislation repealing section 2 of the Official Secrets Act 1911 and replacing it with a measure which would protect specified classes of information whose wrongful disclosure would cause serious national harm; and to bring forward proposals to establish a general right of access by the public to official information, subject only to specific exemptions.

Road Traffic (Eyesight Requirement for Drivers) Bill, Second Reading.

Select Committees: Foreign Affairs—Subject: Famine in Africa. Witnesses: Overseas Development Administration officials (Room 8, 10.30 am).

Defence—Subject: Defence commitments and resources. Witnesses: Professor J. R. Small, Heriot-Watt University; Dr Gavin Kennedy; David Greenwood, Aberdeen University; Dr Ron Smith, Birkbeck College, London (Room 16, 10.30 am).

Energy—Subject: UK gas depletion policy. Witnesses: Professor Colin Robinson; Mr Michael Posner. (Room 8, 11 am).

Treasury and Civil Service Sub Committee—Subject: Head of the government accountancy service. Witness: Mr A. Wilson, FCA (Room 5, 2.30 pm).

Employment—Subject: The training of young people for employment. Witness: CSI (Room 6, 4.15 pm).

Transport—Subject: Marine Pilotage. Witnesses: Trinity House, and the General Council of British Shipping. (Room 17, 4.15 pm).

Unopposed Bills—Vivian Mary Hill and Alan Monk (Marriage Enabling) Bill, South Yorkshire Passenger Transport Bill; Royal Bank of Scotland Bill (Room 8, 4 pm).

Joint Committee — Petition against Okehampton By-Pass: Special Procedure Orders (Room 3, 10.30 am).

THURSDAY

Commons: Continuation of the Budget debate.

Lords: Reserve Forces (Safeguard of Employment) Bill, Third Reading. Insolvency Bill, Committee.

Select Committee—Joint Committee—Petition against Okehampton By-Pass: Special Procedure Orders (Room 3, 10.30 am).

FRIDAY

Commons: Private Members Motions.

BUILDING CONTRACTS

£24m Norwegian oil plant order

Statoil has signed a contract with the Norwegian company ASTRUP HOEYER for construction of six underground storage caverns for the new crude oil terminal at Mongstad, Norway. The caverns will be tunnelled west of the refinery with a total volume of 1.3m cu metres. In connection with the upgrading and expansion of the refinery, it will also be necessary to tunnel four storage caverns with a combined volume of 40,000 cu metres. The contract is worth around NKr 205m (£24m).

The crude oil terminal at Mongstad is built in parallel with the upgrading and expansion of the refinery. Except for access pipelines and a metering station, most of the construction is a long way underground. The caverns are either 330 or 560 metres long with a height of 33 metres and a width of 18 metres. The caverns are all below sea level, about 50 metres underground. The main reason for the terminal is to gain greater market flexibility in the sale of offshore loaded crude oil from Statfjord and Gullfaks fields. The terminal is expected to be in operation early in 1988.

£18m work for Willett

WILLETT has been awarded a series of construction contracts which together are worth £18m. Two multi-million supermarket projects for Sainsbury's head the list. In Chichester, the company is building a single level store complete with parking for 450 cars, access roads and a new roundabout, for completion in late 1985. The second superstore is under construction in Stevenage and this development will include a community hall, play centre, doctors' surgery and petrol station, for handover in 1986.

Another supermarket contract has been placed by Tarmac Properties. This involves the construction of a store superstructure in Ashford, Kent, at a cost of £1.2m due for completion before the end of the year. A £640,000 DIY and garden centre is to be built in Bolton for NPC Properties. Demolition of buildings on the Manchester Road site has started.

Willett has two contracts for Whitbread, together worth £726,000. At the Whitbread Fremlin Brewery in Faversham, Kent, a fermentation vessel area with access corridors and walkways is being created and at the Tank Farm Brewery in Cheltenham, the first phases of an extension and refurbishment programme are underway. These are in addition to a process and bottling facility in Sheffield.

A single-storey warehouse with two storeys of internal offices at Gillingham Business Park for Grosvenor Developments, is worth £682,000, for completion in 35 weeks. Finally, a £2m project is to begin shortly for the City of Westminster. Parsons House in the Edgware Road is to undergo extensive repairs and refurbishment work. Aluminium cladding will replace existing concrete and brickwork, new windows will be installed and the roof will be renewed. Willett is a member of Trollope and Colls Holdings, UK building division of Trafalgar House.

HIGGS AND HILL NORTHERN has started work on its £12.8m contract with the North West Regional Health Authority as part of the £18m redevelopment scheme for Oldham General Hospital, Greater Manchester. The development comprises four three-storey blocks providing 300 new beds, seven operating theatres and other new patient services. Ground floor facilities include new out-patient, X-ray, pharmacy, occupational therapy and accident emergency services. Phase I of the redevelopment is due for completion in early 1988. The new blocks at Oldham are designed to interlink with future phases of the development and pitched roofs of natural slate will be used to blend with existing buildings.

*

Work on the M1 heads contracts, together worth nearly £10m has been awarded to TARMAC CONSTRUCTION. It will reconstruct the southbound carriageway of the M1, between junctions 16 and 18 in Northamptonshire, under a £6.6m contract from Northampton County Council. Works starts shortly and is scheduled for completion in five months. Other projects include refurbishing part of Hadrian House, Newcastle-upon-Tyne, for British Telecom (£1.1m); foundations work and ancillary offices at Ketton Cement Bagging Works, Ketton, for Fairport Engineering (£305,000); and two contracts, together worth £292,000, for foundation work at South Killingholme, South Humberside, for Conoco. On Merseyside three contracts have been awarded to Tarmac Cubitts, part of Tarmac Construction. The largest, valued at £1.1m, is for foundations and ancillary works at Bibby Edible Oils, Bootle, for Wimpey Engineering. The others are for structural alterations and refurbishment of two shops at Crosby, for J. Sainsbury (£228,000); and alterations and refurbishment of offices at Port Sunlight, for Lever Brothers (£300,000).

£18m projects for John Laing Group

Two contracts, together worth more than £18m, have been won by the JOHN LAING GROUP. The Midland region of the company is to build a £14.5m surgical block at Stoke City General Hospital. This will include 357 beds, eight operating theatres, six X-ray rooms and a children's day care unit. It will be built adjacent to the existing hospital in Hilton Road, Newcastle-under-Lyme. Laing Management Contracting has a £3.5m contract for refurbishment work at the Queensmere Shopping Centre in High Street, Slough, which will be carried out largely outside normal shopping hours to minimise inconvenience to the shoppers. The refurbishment includes closing-in the entrances to the building, replacing the fabric of the walls and floor, replacing heating and lighting, and building new shopping facilities.

*

BALFOUR BEATTY CONSTRUCTION has been awarded a contract, valued at £1.5m, by Milton Keynes Development Corporation, for the construction of 600 metres of single carriageway road, including a three-span bridge over a canal. The contract, known as City Road, Bletcham Way (Bond Avenue-A5), Milton Keynes, is due for completion in May 1986. A £48,000 contract has also been awarded by Plessey Microwave to create a clean room within an existing building at Towcester in Northampton. Balfour Beatty is part of the BICC Group.

*

R. MANSELL has been awarded a £1m contract by Dartford Borough Council for alterations to four blocks of four-storey unoccupied maisonettes at Alamein Gardens, Stone, near Dartford, Kent. This involves converting the existing 40 maisonettes into 20 maisonettes and 36 one-bedroom and studio flats and includes upgrading of exterior, replacement of windows, addition of pitched roofs and installation of central heating. Completion date is scheduled for March 1986.

Contracts and Tenders

THE REPUBLIC OF CAMEROON

CALL FOR INTERNATIONAL TENDERS FOR THE CONSTRUCTION OF THE MAPE RESERVOIR DAM AND CONTROL WORKS

Tha Ministry of Computer Science and Public Contracts announces an international call for tenders for the construction of the civil works of the Mape reservoir dam and control works, situated 70 km north of Foumban.

The financing of the project is being arranged with the following organisations:

— La Caissa Centrale de Coopération Economique (C.C.C.E.)
— La Banque Européenne d'Investissement (B.E.I.)
— La Banque Africaina de Developpement (B.A.D.)
— Tha Government of the Republic of Cameroon

The tenderer shall submit a tender in accordance with all the requirements of the participating financial institutions mentioned above.

The works have been divided into two lots:

Lot 1A

(a) A concrete structure incorporating a spillway and control works of some 40m in overall height with sector gates both in the lower outlets and tha upper sluices. The works also include the two concrete wing walls for the connection to the earthfilled dam.
The quantity of concrete is in the order of 30 000m³.

(b) A head race canal of some 1 060m in length and 15m in width at the base.
Excavation quantities are in the order of 640 000m³.

(c) A tail rece canal of some 1 250m in length and 25m at tha base.
Excavetion quantities are in the order of 910 000m³.

Lot 1B

(a) A main earthfilled dam of soma 1 521m in length and with a 35m maximum height.

(b) Seven auxiliery earthfilled dams totalling some 2 092m in length with a height varying from 1m to 7m.
The total voluma of the embankments is in the order of 3 800 000m³.

The project's main target dates are tha following:

— Contract award	August 1st 1985
— Works start up on site	November 1st 1985
— River cut off and diversion of tha Mape	December 1st 1986
— Partial impounding of the reservoir to elevation 710	July 1st 1987
— Works competed, ready to impound to 715.5	July 1st 1988

The works lots are distinct and can be awarded together or separately. However, lot 1A is reserved for individuals, firms, companies, corporations or joint ventures originating in tha "franc zone": this part being financed by "la C.C.C.E."

The tenderers being selected for one and/or the other lot will heve to constitute, before the final award, a joint venture or otherwise, jointly and severally liable for tha two lots.

Call for the tender documents can be consulted at the Ministry of Computer Science and Public Contracts—Contracts Direction in Yaounde, immediately after release of the present communiqué and obtained on presentation of a proof of payment for the sum of 400 000 F CFA from the SONEL accountant.

SONEL shall organise for tha benefit of the tenderers, a field trip to the site, followed by a briefing session during the week ending April 13th 1985.

The tenders either in French or English shall be forwarded to the following address:

MINISTRY OF COMPUTER SCIENCE AND PUBLIC CONTRACTS
CONTRACTS DIRECTION, YAOUNDE, CAMEROON

and shall be received at 12 noon, May 15th 1985, at the latest either by registered mail with receipt or deposited against receipt.

Tha tenders shall be laballed as follows:

"Call for International Tenders of May the 15th 1985 for the construction of the Mape reservoir dam and control works—Lot 1 Civil Engineering"—to be opened only in a tendering opening session.

The bid openings shall taka place in the Conference Room of the Ministry of Computer Science and Public Contracts National Commission in closed session.

INVITATION TO FINANCE NPC SUEZREFINERY PROJECT

A 125000 BSD topping refinery project in the engineering stage, ENPP on behalf of Nash Petroleum Company, is inviting banks and financial institutions interested in financing the project to address their inquiries to Farid Abo El-Dahab, Enppi, Tlx No. 93258 Enppi UN. Mail address is P.O. Box 2521, El-Horrya, Heliopolis, Cairo, Egypt.

Project-Line credit financing is desired for the project to permit the procurement of engineered equipment and bulk materials from Japan and European countries prepared to finance the project. Engineering, procurement, construction, and project management are performed by a consortium of Enppi and Petrojet, both are Egpc companies.

REORGANISATION AND PRIVATISATION OF THE NATIONAL BUS COMPANY:

Appointment of Advisers

(1) The Rt Hon Nicholas Ridley MP, Secretary of State for Transport, is considering the appointment of advisers to the Department in connection with the proposed reorganisation and privatisation of the operations of the National Bus Company (NBC), for which powers are being sought in the Transport Bill now before Parliament.

(2) Advice will be required for the Government's consideration of the NBC Board's proposals on the following matters:

(a) the preparation of NBC's local companies to compete fairly with each other and with other operators on deregulation of the bus industry. The Bill provides that deregulation should take place on 1 October 1986;

(b) the programme for the transfer of NBC's operations to the private sector in accordance with its main objective and duties under the Bill. The main objective will be to promote sustained and fair competition both between NBC's own operating companies and between those companies and others; the duties are to have regard to the net value to be secured from disposals and to give employees opportunity to gain control of the operations for which they work;

(c) the disposals of individual local companies in accordance with the main objective and duties;

(d) particular issues arising from the privatisation of NBC's operations and the dissolution of the Company, including future arrangements for pensions of current and former employees and arrangements for the disposal of leases and other assets held by NBC or its subsidiary companies.

(3) Merchant Bank and other financial advisers interested in being considered for this appointment should notify the Department of Transport by 20 March 1985. The contact point is A. P. Brown, Department of Transport, Passenger Transport Directorate, Room S17/13, 2 Marsham Street, London SW1P 3EB (tel: 01-212 8187).

CONTRACTS AND TENDERS ADVERTISING APPEARS EVERY MONDAY

The rate is £35.50 per single column centimetre

GENEVA

FULL SERVICE IS OUR BUSINESS

- Law and Taxation
- Mailbox, telephone and telex services
- Translation and secretarial services
- Formation, domiciliation and administration of Swiss and foreign companies

BUSINESS ADVISORY SERVICE S.A.
7 Rue Muzy
1207 Geneva
Tel: 36.05.40

Personal

SWITZERLAND

LAKE GENEVA — MOUNTAIN RESORTS

Lovely apartments with magnificent views of Lake Geneva and mountains, Montreux, Villars, Verbier, Les Diablerets, Chateau d'Oex near Gstaad, Leysin. Excellent opportunities for foreigners. Prices from SwFr 123,000. Liberal mortgages at $6\frac{1}{2}$% interest

GLOBE PLAN SA, Av Mon-Repos 24, CH-1005 Lausanne, Switzerland
Tel: (21) 22.35.12 - Telex: 25185 MELIS
Established since 1970

Appointments

INVESTMENT BANKING

A leading International investment group requires an Investment Banking Associate for its Japan Desk, based in London.

Responsibilities include preparation of financing proposals to Japanese client; execution of transactions related thereto and client contact with European offices of Japanese corporations, banks and securities companies.

The position requires familiarity with Japan and Japanese business institutions and at least six years' experience in investment banking in the U.S.A. as well as Japan. The successful applicant should be educated to degree standard, be a native English speaker fluent in Japanese (both speaking and reading); be able to perceive opportunities in capital markets, creatively match these with the financing requirements and objectives of Japanese clients and communicate these ideas to clients and to other members of the Japan business team in Tokyo and New York. Salary negotiable.

If you are in your early 30's, have the necessary qualifications and experience, please write in confidence enclosing full curriculum vitae to:

Box A8939, Financial Times, 10 Cannon Street London EC4P 4BY

Company Notices

RIGGS NATIONAL CORPORATION

USD 60,000,000

FLOATING RATE SUBORDINATED NOTES 1996

In accordance with the provisions of the Notes, notice is hereby given that for the period March 18th 1985 to June 18th 1985 the Notes will carry a rate of interest of $9\frac{11}{16}$ per cent per annum with a Coupon amount of US$250.76.

CHEMICAL BANK
as Agent

NOTICE TO BONDHOLDERS

Saab-Scania Aktiebolag

US$50,000,000 $8\frac{1}{4}$ per cent Bonds due 15th March, 1989

Pursuant to the terms and conditions of Bonds, notice is hereby given that during the twelve-month period beginning on 15th March, 1984, the Company has purchased US$2,500,000 principal amount of the subject Bonds in satisfaction of the Purchase Fund requirements.

As of 18th March, 1985, the principal amount of such Bonds remaining in circulation was US$30,000,000. For SAAB-SCANIA AKTIESOLAG

CITIBANK, N.A., London
18th March, 1985

EBCO INTERNATIONAL B.V.

(Incorporated with limited liability in The Netherlands)

Company with a fully-paid share capital of 35,000 DFl.
Registered Office:
J.J. Viottastraat 52,1071 JT
AMSTERDAM, The Netherlands.
Commercial Register:
File Number 171,529

SECOND NOTICE TO HOLDERS OF NOTES $10\frac{3}{4}$% 1984-1989 OF ecu 1,000 EACH GUARANTEED ON SUBORDINATED BASIS AS TO PAYMENT OF PRINCIPAL AND INTEREST BY EUROPEAN BANKING COMPANY S.A. BRUSSELS

The holders of International notes $10\frac{3}{4}$% 1984-1989 issued by EBCO INTERNATIONAL B.V. who were called for March 13, 1985, being unable to meet validity for lack of quorum, are again convened to an Ordinary General Meeting, at 50, Boulevard Haussmann, Paris 9ème (France) on April 1, 1985 at 3 p.m. in order to consider the same agenda as the one for the first meeting, that is:

—Appointment of the noteholders' permanent representatives, designation of the substitute representatives.

—Determination of the noteholders' representatives' powers and of the remuneration given to the permanent representatives.

To permit the noteholders to attend or to be represented at this meeting, the notes or their deposit receipts, must be deposited at least five days before the date fixed for the meeting, at the offices of the banks having participated in the placing of these notes and from whom proxies or admission cards can be requested.

THE MANAGING BOARD

Art Galleries

AGNEW GALLERY, 43 Old Bond St., W1. 629 6176. MODERN BRITISH WORKS OF ART until April 25. Mon.-Fri. 9.30-5.30; Thurs. until 6.30.

Clubs

EVE has outlived the others because of a policy of fair play and value for money. Supper from 10-3.30 am. Disco and top musicians, glamorous hostesses, exciting floorshows. 189, Regent St. 01-734 0557.

INVEST IN 50,000 BETTER TOMORROWS!

50,000 people in the United Kingdom suffer from progressively paralysing MULTIPLE SCLEROSIS — the cause and cure of which are still unknown — HELP US BRING THEM RELIEF AND HOPE.

We need your donation to enable us to continue our work for the CARE and WELFARE OF MULTIPLE SCLEROSIS sufferers and to continue our commitment to find the cause and cure of MULTIPLE SCLEROSIS through MEDICAL RESEARCH.

Please help—send a donation today to:
Room F.1
The Multiple Sclerosis Society of G.B. and N.I.
286 Munster Road
Fulham, London SW6 6BE

Public Notices

SCOTTISH EQUITABLE LIFE ASSURANCE SOCIETY

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Society will be held in the SOCIETY'S HEAD OFFICE, No. 31 ST. ANDREW SQUARE, EDINBURGH on Thursday, 28th March 1985 at 12 noon to consider the Accounts and Balance Sheet and Reports of the Directors and the Auditor, to elect Directors, to determine the remuneration to be paid to the Directors and to re-appoint the Auditor.

A Member of the Society entitled to attend and vote at any Annual General Meeting is entitled to appoint another person to attend and vote instead of him. Proxies must be lodged at the Society's Head Office not less than forty-eight hours before the time for holding the Meeting.

By Order of the Board
D. A. BERRIDGE
General Manager

31 St. Andrew Square, Edinburgh.

Closing prices, March 15

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
23⅛	16⅞	AAR	.48	2.4	18	20	20	18⅞	20	−⅛
22	9⅝	AGS			11	153	14¼	14¼	14¼	
18⅛	11	AMCA				18	11⅛	11	11	−¼
17⅞	18¼	AMF	.50	2.9	30	415	17¼	16⅞	17¼	+⅜
43¾	24¼	AMR			9	1444	40⅝	40	40⅛	+⅛
20⅝	16¼	AMR	pf2.18	11.		18	20⅛	20	20	
25⅞	22⅞	ANR	pf2.67	11.		2	24½	24½	24½	−½
23	19	ANR	pf2.12	11.		7	20	20	20	−1
14¼	9½	APL			5	22	8¾	9½	9½	−¼
67¼	44⅝	ASA	2	4.1		518	49¼	48⅝	48	+⅝
27	16	AVX	.32	1.7	12	3586	25	19½	19	−2¾
50½	36¾	AbtLab	1.40	2.9	15	2171	50	49	48	−⅜
25⅞	18½	AccoWds	.44	1.9	19	46	23⅝	23⅜	23½	−¼
22½	12½	AcmeC	.40	2.5		40	18	15¾	18	+¼
10¾	8¼	AcmeE	.32b	3.3	72	11	9¾	9⅝	9⅝	
17⅜	15	AdaEx	2.11e	13.		30	16¾	18½	16⅝	+¼
20	11⅞	AdmMi	.32	1.8	7	31	17⅛	17⅜	17½	+⅜
19½	8⅝	AdvSys	.91t	7.3	18	127	11¼	11⅛	11⅛	−⅜
41⅞	25⅛	AMD			13	3686	31	30⅛	30½	
12¾	6⅞	Advest	.12	1.2		728	10¾	10¼	10¼	−⅜
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 27

AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices, March 15

We regret that due to communications problems this listing is incomplete.

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued from Page 26

X Y Z

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
46¼	33¼	Xerox	3	7.6	17	2548	43⅞	42⅝	42¾	−⅛
51⅝	45¼	Xerox	pf5.45	11.		1003	49⅝	49½	49⅛	−½
30	24	ZaleCp	1.32	4.6	9	61	29⅝	28¾	28¾	−½
24⅞	13⅝	Zapata	.84	6.0	16	1261	14½	13⅝	14	+⅜
58	30	Zayre	.40b	.7	14	285	56	55	55¾	+¾
31¼	16⅛	ZenithE			7	487	21¼	21	21	−¼
21⅞	14⅜	Zero	2		19	8	20¼	20⅛	20¼	+⅛
31⅝	21⅛	Zurnin	1.32	4.7	16	89	28½	28	28	−½

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a–dividend also extra(s). b–annual rate of dividend plus stock dividend. c–liquidating dividend. cld–called. d–new yearly low. e–dividend declared or paid in preceding 12 months. g–dividend in Canadian funds, subject to 15% non-residence tax. i–dividend declared after split-up or stock dividend. j–dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k–dividend declared or paid this year, an accumulative issue with dividends in arrears. n–new issue in the past 52 weeks. The high-low range begins with the start of trading. nd–next day delivery. P/E–price-earnings ratio. r–dividend declared or paid in preceding 12 months, plus stock dividend. s–stock split. Dividends begins with date of split. sls–sales. t–dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u–new yearly high. v–trading halted. vi–in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd–when distributed. wi–when issued. ww–with warrants. x–ex-dividend or ex-rights. xdis–ex-distribution. xw–without warrants. y–ex-dividend and sales in full. yld–yield. z–sales in full.

WORLD STOCK MARKETS

OVER-THE-COUNTER

Nasdaq national market, closing prices, March 15

[illegible]

Continued on Page 29

CANADA

TORONTO

Closing prices March 15

[illegible]

MONTREAL

Closing prices March 15

Sales	Stock	High	Low	Close	Chng
[illegible]					
63013	NatBk Cda	$17⅞	17⅝	17¾	
8110	Power Corp	$31	30⅝	31	+¼
5460	RollandA	$23⅜	23⅛	23⅜	+¼
800	RollandB	$23½	23¼	23¼	−¼
6859	Royal Bank	$29½	29¼	29⅜	+⅛
1080	SteinbrgA	$33½	33¼	33¼	−½

Total Sales 1,754,264 shares

BELGIUM/LUXEMBOURG

1984/85 High	Low	Mar. 16	Price Frs.
9,082	1,570	B.B.L.	1,900
6,150	4,865	Banq. Int. A. Lux.	6,160
6,940	3,105	Bekaert S.	5,900
2,800	2,010	Ciment CBR	2,590
328	178	Cockerill	280
8,000	4,750	Delhaize	7,900
3,050	2,290	EBES	3,020
8,800	5,650	Electrobel	8,640
9,425	1,800	Fabrique Nat.	2,150
6,595	2,850	GB Inno BM	5,570
2,800	1,965	GBL (Brux)	9,115
4,330	2,270	Gevaert	4,850
6,480	4,860	Hoboken	5,800
3,000	1,805	Intercom	2,255
8,600	6,280	Kredietbank	8,600
11,600	8,960	Pan Hldgs	11,550
8,210	8,010	Petrofina	7,030
11,800	7,320	Royale Belge	10,800
3,600	9,885	Soc. Gen. Banq	5,400
2,040	1,565	Soc Gen. Belge	2,040
8,340	6,190	Sofina	7,860
4,500	3,430	Solvay	4,410
1,600	1,050	Stanwick Intl.	1,600
4,550	5,125	Tractionel	4,235
6,490	3,940	UCB	5,570
9,760	1,865	Wagon Lits	2,700

FRANCE

1984/85 High	Low	Mar. 16	Price Frs.
1,999	1,543	Emprunt 4½% 1975	1,642
10,020	7,356	Emprunt 7% 1973	7,660
283	202	Accor	283
635	497	Air Liquide	625
[illegible]			

GERMANY

1984/85 High	Low	Mar. 15	Price Dm
[illegible]			
560.5	458	Nixdorf	560.5
1398	216	Porsche	1553
288	216.5	Preussag	282
188.6	125.5	Rhein West Elect	162
291	238	Rosenthal	250
483	317	Schering	461
573.5	553.5	Siemens	565
103.5	32.5	Thyssen	106.4
198	150	Verta	163.5
185	159.5	Veba	188.2
127.8	108.5	V.E.W.	121.2
336	285	Verein-West	313
331.8	168	Volkswagen	192

NORWAY

1984/85 High	Low	Mar. 13	Price Kroner
180	134	Bergens Bank	146
433	213	Borregaard	380
190	132	Cristiania Bk.	144
188.5	148	Den Norsk Credit	130
187.5	102	Elkem	148
311	132.3	Kvaerner	181
440	356	Norsk Data	410
137.3	93	Norsk Hydro	106.5
373.3	172	Storebrand	246

NETHERLANDS

1984/85 High	Low	Mar. 13	Price Fls
318	183	ACF Holding	200.3
163	107	AEGON	189
236	168.3	Ahold	228.2
[illegible]			
77.5	58.3	Robeco	75.3
139.8	130.1	Rodamco	132.8
70.8	55.3	Rolinco	69.3
44.4	39.6	Rorento	44.4
207.6	156.2	Royal Dutch	202.8
353	332.5	Unilever	352.3
148	90	VMF Stork	145
321.6	137	VNU	314.1
145.6	72.5	West Utr Bank	105.6

AUSTRIA

1984/85 High	Low	Mar. 16	Price %
243	902	Credit'stalt Pfd.	240
486	316	Goesser	458
310	381	Interunfall	480
353	303	Laenderbank	240
448	300	Perlmooser	335
178	132	Steyer-Daimler	172
409	206	Veitscher Mag	381

DENMARK

1984/85 High	Low	Mar. 16	Price Knr. %
382	316	Andelsbanken	995
720	310	Baltic Skand	396
350	207	CopHandelsbank	393
850	460	D. Sukkerfab	540
585	205	Danske Bank	285
1,900	830	De Danske Luft.	1,246
918	129	East Asiatic	167
7,350	730	Forenede Brygg.	660
168	33	Forenede Damp.	39
700	352	GNT Hldg	415
733	540	I.S.S.B.	400
760	443	Jyske Bank	565
3 150	1,900	Novo Ind.	1,360
278	233	Privatbanken	247
670	280	Provinsbanken	307
300	200	Smidth (F.)	326
1,576	845	Sophus Berend	980
588	404	Superfos	485

SWEDEN

1984/85 High	Low	Mar. 15	Price Kronor
410	330	AGA	687
302	170	Alfa-Laval	166
450	280	ASEA (Free)	520
540	300	Astra (Free)	360
141	95	Atlas Copco	108
331	903	Cardo (Free)	360
199	114	Cellulosa	122
323	215	Electrolux B	324
390	244	Ericsson	288
390	250	Esselte	360
375	218	Mo Och Domsjo	243
247	153	Pharmacia	214
609	310	Saab Scania Free	466
425	510	Sandvik	416
425	357	Skandia	305
75	50.0	Skan Enskilda	61.6
222	154	SKF	914
197.5	167	St. Kopparberga	140
337	168	Sven Handelsbn.	163
380	915	Swedish Match	337
303	189	Volvo B (Free)	333

AUSTRALIA

Mar. 13 — Price Aust. $

[illegible]

ITALY

Mar. 13 — Price Lire

[illegible]

SINGAPORE

Mar. 15 — Price S$

[illegible]

SWITZERLAND

Mar. 15 — Price Frs.

[illegible]

HONG KONG

Mar. 15 — Price H.K.$

[illegible]

JAPAN

Mar. 15 — Price Yen

[illegible]

SOUTH AFRICA

Mar. 15 — Price Rand

[illegible]

SPAIN

Mar. 5 — Price %

[illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

WORLD STOCK MARKETS

OVER-THE-COUNTER

Continued from Page 28

Indices

NEW YORK — DOW JONES

	Mar. 15	Mar. 14	Mar. 13	Mar. 12	Mar. 11	1984-85 High	1984-85 Low	Since Compil't High	Since Compil't Low
♦Industri'ls	1247.35	1260.85	1261.78	1271.75	1268.56	1299.36 (? 5/85)	1086.57 (24/7)	1299.36 (1/5/85)	41.22 (2/7/32)
H'me Bnds	72.39	72.46	72.56	72.55	72.60	7? 17 (30/1/85)	64.81 (25/5)	—	—
Transport	602.19	605.74	608.51	615.59	611.71	655.39 (1/3/85)	444.03 (25/7)	635.30 (1/3/85)	12.59 (8/7/32)
Utilities	147.00	147.95	148.44	148.05	147.57	151.19 (15/2/85)	122.25 (15/6)	163.72 (20/4/63)	10.5 (28/4/42)
TradingVol 000 †	105,160	103,350	131,670	92,840	84,110	—	—	—	—

♦Day's High 1266.27 (1269.21) Low 1245.14 (1254.20)

	Mar. 8	Mar. 1	Feb. 22	year ago (approx)
Industrial div. yield %	4.81	4.69	4.77	4.85

STANDARD AND POORS

	Mar. 15	Mar. 14	Mar. 13	Mar. 12	Mar. 11	1984-85 High	1984-85 Low	Since Comp'n High	Since Comp'n Low
Indust'ls	196.94	198.51	199.05	200.82	199.92	205.15 (1/3/85)	187.74 (24/7)	205.15 (1/3/85)	3.82 (30/6/32)
Comp'site	176.53	177.84	178.19	179.66	176.79	183.35 (18/2/85)	147.82 (24/7)	183.35 (18/2/85)	4.40 (1/6/32)

	Mar. 6	Feb. 27	Feb. 20	year ago (approx)
Industrial div. yield	3.83	3.82	3.81	4.09
Industrial P/E ratio	11.34	11.53	11.54	11.61
Long Gov. Bond yield	11.64	11.83	11.46	12.15

N.Y.S.E. ALL COMMON

Mar. 15	Mar. 14	Mar. 13	Mar. 12	1984-85 High	1984-85 Low
102.46	103.11	103.24	104.03	106.06 (13.2 85)	85.13 (24/7)

Rises and Falls

	Mar. 15	Mar. 14	Mar. 13
Issues Traded	1,972	1,961	1,978
Rises	620	709	493
Falls	880	779	1,008
Unchanged	472	473	477
New Highs	49	48	45
New Lows	11	7	10

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Phillips Pet	2,845,800	48⅞	—
Comw Ed	2,161,700	28⅞	+ ⅛
K Mart	1,776,400	32⅞	− ⅛
Pac Gas El	1,664,700	16⅝	− ⅛
ATT	1,613,100	21¼	− ⅛
Chrysler	1,573,400	35	+ ⅛
IBM	1,197,300	128⅝	− ⅛
J. P. Morgan	1,119,600	45⅞	− ⅛
Ensearch	1,068,000	29⅝	+1
Exxon	1,051,000	48⅝	− ⅛

TORONTO

	Mar. 15	Mar. 14	Mar. 13	Mar. 12	1984-85 High	1984-85 Low
Metals & Minerals	2614.0	2619.6	2625.7	2659.0	2524.4 (12/1/84)	1641.2 (25/7)
Composite	2584.6	2588.8	2588.8	2607.6	2647.0 (6/3/85)	2079.7 (24/7)
MONTREAL Portfolio	128.88	129.29	129.19	130.54	132.77 (6/3/85)	100.56 (24/6)

	Mar. 16	Mar. 14	Mar. 13	Mar. 12	1984-85 High	1984-85 Low
AUSTRALIA All ord. (1/1/80)	784.5	785.0	787.4	784.1	798.9 (20/2/85)	546.5 (16/6)
Metals & Minls. (1/1/80)	476.9	473.5	471.9	468.9	587.4 (8/1/84)	393.6 (7/1/85)
AUSTRIA Credit Aktien (2/1/62)	71.54	72.83	72.42	73.03	74.34 (28/2/85)	55.28 (15/6)
BELGIUM Brussels SE (1/1/80)	2305.2	2308.24	2310.05	2306.98	—	—
DENMARK Copenhagen SE (3/1/83)	175.62	176.19	174.44	175.09	225.2 (20/1/84)	158.44 (8/1/85)
FRANCE CAC General (31/12/82)	208.19	208.4	208.4	208.8	208.4 (13/3/85)	155.9 (3/1/84)
Ind Tendance (28/12/84)	112.9	112.7	113.1	119.8	113.1 (13/3/85)	100.0 (28/12/8
GERMANY FAZ Aktien (31/12/58)	416.17	415.56	419.27	420.87	420.87 (12/3/85)	317.17 (25/7)
Commerzbank (1/12/53)	1214.0	1202.5	1214.8	1218.1	1218.1 (12/3/85)	917.7 (25/7)
HONG KONG Hang Seng Bank (31/7/64)	1555.76	1559.35	1586.82	1571.51	1436.17 (19/2/85)	746.02 (13/7)
ITALY Banca Comm Ital. (1972)	—	276.75	276.98	277.28	288.71 (20/2/85)	192.06 (2/1/84)
JAPAN** Nikkei-Dow (16/5/49)	12469.9	12405.9	12419.5	12296.9	12569.0 (4/3/85)	9703.35 (23/7)
Tokyo SE New (4/1/68)	997.89	993.92	986.53	977.14	997.89 (16/3/85)	736.46 (4/1/84)
NETHERLANDS ANP-CBS General (1970)	207.9	206.7	206.7	208.5	209.7 (13/3/85)	146.9 (25/7)
ANP-CBS Indust (1970)	165.6	165.7	165.6	166.5	165.7 (14/3/85)	118.7 (8/6)
NORWAY Oslo SE (4/1/83)	318.81	320.65	325.14	327.79	345.6 (6/2/85)	221.67 (4/1/84)
SINGAPORE Straits Times (1966)	841.17	835.94	851.51	896.63	1071.8 (8/2/84)	784.4 (15/1/85)
SOUTH AFRICA Gold (1960)	—	927.7	924.5	908.9	1099.0 (19/11)	758.1 (24/1/84)
Industrial (1958)	—	850.9	846.6	847.7	1105.3 (28/3/84)	846.8 (5/3/85)
SPAIN Madrid SE (28/12/84)	111.57	111.06	111.36	112.06	117.41 (4/2/85)	100.00 28 12/8
SWEDEN Jacobson & P (1/1/58)	1457.39	1441.15	1444.17	1418.18	1584.5 (6/2/84)	1382.89 (22/11
SWITZERLAND Swiss BankCpn. (31/12/58)	450.2	429.3	429.9	429.8	438.2 (15/3/85)	354.5 (25/7)
WORLD Capital Intl. (1/1/70)	—	196.9	196.0	196.5	198.1 (4/3/85)	163.2 (14/12)

** Saturday March 16: Japan Nikkei-Dow 12,487.38. TSE 998.65.

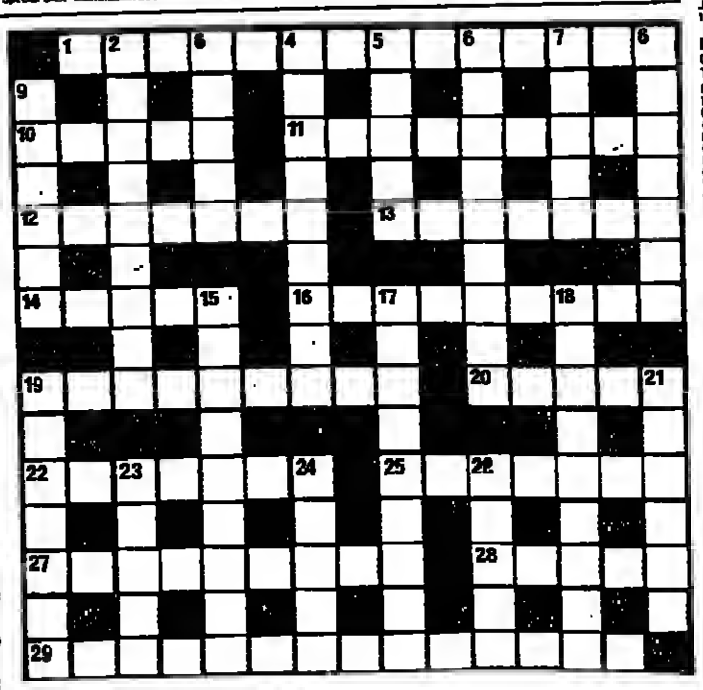
Base value of all indices are 100 except Australian All Ordinary and Metals—500. NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 industrials. § 400 industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

F.T. CROSSWORD PUZZLE No. 5,671



ACROSS

1 You would look down upon his work (8, 6)
10 French word and French composition! (5)
11 Ends time at school dissecting snail (9)
12 Drive back sappers with a beating (7)
13 Outside broadcast spectacle is indecent (7)
14 Owned new present (5)
16 Wateriness of the blood made hairy characters (9)
19 Given these on the way out? (4, 5)
20 Game doesn't start in Ireland (5)
22 Write to listener (7)
25 Took in too much? (7)
27 Chemical that might make the hen nap (9)
28 Make certain there's no right to follow (5)
29 Master in coat at unusual camp designing (14)

DOWN

2 Australia and New Zealand against dopes being treated (9)
3 Praise former wife to student (5)
4 The canter performed in ballet? (9)
5 Trunk in elevator someone stood on (5)
6 Bring back control over Texas for example (9)
7 Single sorcerer is an idol (5)
8 Hardy's girl has time to discover password (7)
9 Cream application on sweetheart is fine (6)
15 Porcelain in Massachusetts (9)
17 Hedonists' gathering is insincere (9)
18 Party intentions — make clear on 1st October (9)
19 Terse aircraftsman holds rare coin (7)
21 Saturated turf on top of cave (6)
23 On which one could be about to collapse! (5)
24 Unit starts training hard expecting royal marriage (5)
26 Late tea arranged getting leave of absence (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

Money Market Trust Funds

Money Market Bank Accounts

NOTES

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
21 Nov 21 May	Treas 3pc 1985	98⅛	15.10	3.06	14.16
15Jan 15Jul	Treas 11¼pc 1985	99⅛	10.12	11.57	13.38
3 Mar 3 Sep	Treas 8¾pcCnv '85	98¼	25.1	8.93	12.92
22 May 22 Nov	Exch. 12¼pc 1985	99¾	16.10	12.28	12.51
25 Aug 25 Feb	Exch. 11¾pc '86	99⅞	21.1	11.79	12.07
11Oct 11Apr	Treas. 10pcCnv 1986	97½xd	5.3	10.21	12.17
19 Nov 19 May	Treas 3pc 1986	93⅞	15.10	3.20	8.60
19 Nov 19 May	Exch. 10½pc Cv '86	98½	15.10	10.69	12.18
12Dec 12Jan	Treas 12pc 1986	99¾	5.11	12.03	12.16
10 Jan 10 Jul	Treas 8¼pc 1984-86‡‡	95¾	4.12	8.87	11.96
29 Apr 29 Oct	Exch. 14pc 1986	102½	24.9	13.62	11.98
21 May 21 Nov	Exch. 2½pc 1986	89⅛	15.10	2.81	9.54
22Jul 22Jan	Exch. 13¼pc 1987	102¼	17.12	12.96	11.81
10 Aug 10 Feb	Treas 10¼pcCv '87	97½	4.1	10.51	11.73
24Aug 24Feb	Exch 2½pc 1987	87⅞	18.1	2.85	9.63
6Oct 6Apr	Exch. 10½pc 1987	97¾xd	1.3	10.74	11.77
1 Nov 1 May	Funding 6½pc '85-87‡‡	90¾	25.9	7.16	11.53
12Dec 12Jne	Treas. 10pc 1987	96½	5.11	10.38	12.20
14Jan 14Jly	Treas 3pc 1987	86½	10.12	3.47	9.68
3May 3Nov	Treas. 12pc 1987	100¼	27.4	11.97	11.86
26 Jul 26 Jan	Treas 7¾pc 1985-88‡‡	91¾	30.12	8.45	11.18
10Nov 10May	Exch 10½pc '88	96½	4.10	10.88	11.85
14Dec 14Jne	Treas 9¾pc Cv '88	99½	7.11	10.37	12.06
1Jan 1Jul	Transport 3pc '78-88	83	5.11	3.61	9.09
25 Apr 25 Oct	Treas. 9½pc '88	93	18.9	10.22	11.93
22 Aug 22 Feb	Treas 11½pc 1989	99⅛	16.1	11.60	11.77
18 Oct 18 Apr	Treas 9½pc Cnv '89	92¼xd	12.3	10.24	11.81
14Dec 14Jun	Treas 10½pc 1989	95½	7.11	10.99	11.86
1Feb 1Aug	Exch 10pc 1989	93½	27.12	10.66	11.85
29 Mar 29 Sep	Exch 11pc 1989	97⅛xd	20.2	11.32	11.81
15 Apr 15 Oct	Treas 5pc 1986-89	81⅝xd	11.3	6.13	10.12
15 Jul 15 Jan	Treas 13pc 1990‡‡	104¾	10.12	12.41	11.67
	Exch 11pc '90 £.20pd	19½		11.32	11.75

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Cont.

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BEERS, WINES—Cont.

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

HOTELS—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
		[illegible]	55	3.9	‡u1.11	2.3	2.9	07.9
May	Oct	Queens Moat 5p	£241	10.12	Q10½%	7.6	(4.4	—
June	Dec	Do. 10½pcCv. 89-91	211xd	11.3	Q10.57%	♦	3.8	♦
—		Ryan Hotels 5p	353	30.4	2.0	5.6	0.8	23.8
	June	Savoy "A" 10p	183	25.2	3.0	2.8	2.3	18.1
Apr	Sept	Stakis 10p	154	11.2	4.74	1.6	4.4	19.3
Apr.	Oct.	Trusthouse Forte	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

INSURANCES

LEISURE

PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

MINES—Continued

Finance

Australians

Tins

Miscellaneous

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ◆ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- ¢ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ● Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ◆◆ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Tender price. F Dividend and yield based on prospectus or other official estimates for 1984-85. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1984. K Figures based on prospectus or official estimates for 1984. M Dividend and yield based on prospectus or other official estimates for 1985-86. R Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. N Nros. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	98	—	Arnott	170	—
Craig & Rose £1	£20	—	CPI Hldgs	57	—
Finlay Pkg. 5p	50	—	Carrol Inds.	111	−1
Higsons Brew	118	—	Dublin Gas	60	—
Holt (Jos) 25p	880	—	Hall (R. & H.)	45	—
IoM Stm. £1	130	—	Heiton Hldgs.	16½	—
IRISH			Irish Ropes	40	—
Exch. 12% 1985	£99½	—	Jacob (W. & R.)	85	−2
Nat. 9¾% 84/89	£85⅝	—	TMG	115	—
Fin. 13% 97/02	£98⅝	—	Unidare	84xd	—

OPTIONS—3-month call rates

Industrials	p				
Allied-Lyons	16	GKN	17	Turner Newall	10
BAT	32	Hanson Tst.	17½	Unilever	85
BOC Grp.	25	Hawker Sidd	38	Vickers	19
BSR	16	Hse of Fraser	30	**Property**	
BTR	52	ICI	60	Brit Land	12
Babcock	14	'Imps'	18	Cap Counties	18
Barclays	48	Jaguar	25	Land Secs	25
Beecham	32	Ladbroke	24	MEPC	28
Blue Circle	45	Legal & Gen	50	Peachey	22
Boots	16	Lex Service	25	Samuel Props	14
Bowaters	20	Lloyds Bank	45	**Oils**	
Brit Aerospace	35	Lucas Inds.	25	Brit. Oil & Min	4
Brit. Telecom	11	Marks & Spcr	11	Brit Petroleum	42
Brown (J.)	5	Midland Bk	50	Burmah Oil	18
Burton Ord	39	NEI	N	Charterhall	◆
Cadburys	14	Nat West Bk	60	Premier	5
Comm Union	19	P & O Dfd	36	Shell	60
Courtaulds	12½	Plessey	17	Tricentrol	18
Debenhams	17½	Polly Peck	26	Ultramar	19
Distillers	28	Racal Elect	18	**Mines**	
Dunlop	6	RHM	11	Charter Cons	10
FNFC	8½	Rank Org Ord	32	Cons Gold	44
Gen Accident	65	Reed Intnl	50	Lonrho	14
Gen Electric	17	Sears	8	Rio T Zinc	56
Glaxo	85	TI	20		
Grand Met	25	Tesco	20		
GUS 'A'	60	Thorn EMI	35		
Guardian	60	Trust Houses	[illegible]		

A selection of Options traded is given on the London Stock Exchange Report page.

"Recent Issues" and "Rights" Page 18

CURRENCIES, MONEY and CAPITAL MARKETS

FINANCIAL FUTURES

LONDON

THREE-MONTH EURODOLLAR $1m points of 100%

THREE-MONTH STERLING £500,000 points of 100%

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

STERLING £25,000 $ per £

DEUTSCHE MARKS DM 125,000 $ per DM

SWISS FRANCS SwFr 125,000 $ per SwFr

JAPANESE YEN Y12.5m $ per Y100

FT-SE 100 INDEX £25 per full index point

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

U.S. TREASURY BILLS (IMM) $1m points of 100%

CERT. DEPOSIT (IMM) $1m points of 100%

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

STERLING (IMM) $e per £

GNMA (CBT) 8% $100,000 32nds of 100%

WEEKLY CHANGE IN WORLD INTEREST RATES

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, and band 3 bills 34 to 63 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week. Band 4 bills 13 7/8.

FOREIGN EXCHANGES

Doubts surround the dollar

BY COLIN MILLMAN

The foreign exchange market was fairly evenly divided between the dollar bulls and bears last week, and it was hard to decide who was gaining the upper hand.

In the end the dollar weakened as a savings and loan company in Ohio ran into trouble, renewing fears of a U.S. banking crisis, but until then the currency seemed to be recovering from a shaky start to the week.

It began with the death of President Chernenko, but the change of leadership in the USSR had little impact, as attention to focus on interest rates differentials between New York and Frankfurt, and indications of U.S. economic growth.

On Monday it was generally assumed that U.S. interest rates would fall and that the economy was going through a period of retrenchment, but Wednesday's figure on retail sales in February was about twice as high as expected, leading to a reassessment of the economic situation.

A fall of 0.5 per cent in industrial production, announced Friday, was in line with expectations, and the weekly M1 money supply fall of $400m the previous night was also as anticipated. The flash estimate of U.S. first-quarter gross national product on Thursday should give further indication of the rate of economic growth, but at the moment the market is confused.

Interest rate trends tended to support the dollar, with the Federal funds rate above 9 per cent in New York for much of the week, without any aggressive move by the Federal Reserve to inject liquidity into a market suffering from a seasonal shortage of money.

The German Bundesbank also had a quiet week.

On Friday morning the dollar was above DM 3.40, amid suggestions it could soon be testing the 13-year high of DM 3.4510, but it closed at DM 3.770, a fall of about 3½ pfennigs on the week. Trading ended on a confused and nervous note. High interest rates are supporting the dollar at present, but the economic scene is shrouded in doubt.

STERLING EXCHANGE RATE INDEX (Bank of England)

	March 15	Previous
8.30 am	71.8	71.9
9.00 am	71.6	71.8
10.00 am	71.6	71.6
11.00 am	71.6	71.7
Noon	71.7	71.7
1.00 pm	71.7	71.7
2.00 pm	71.8	71.7
3.00 pm	72.0	71.7
4.00 pm	72.0	71.8

£ in New York

FORWARD RATES AGAINST STERLING

	Spot	1 month	3 month	6 month	12 month
Dollar	1.0840	1.0792	1.0731	1.0705	1.0713
D-Mark	3.6600	3.6513	3.6345	3.5990	3.4998
French Franc	11.1307	11.1650	11.0951	11.1030	11.1390
Swiss Franc	3.1150	3.0926	3.0981	3.0127	2.9320
Japanese Yen	282.25	280.35	277.20	273.75	267.40

BANK OF ENGLAND TREASURY BILL TENDER

POUND SPOT—FORWARD AGAINST POUND

Belgian rate is for convertible francs. Financial franc 73.95-74.05. Six-month forward dollar 1.38-1.33c pm. 12-month 1.36-1.20c pm.

OTHER CURRENCIES

* Selling rate.

DOLLAR SPOT—FORWARD AGAINST DOLLAR

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 68.20-68.30.

CURRENCY MOVEMENTS

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

CURRENCY RATES

* CS/SDR rate for March 13: 1.32894.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu March 15	% change from central rate	% change adjusted for divergence	Divergence limit %

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES (Market closing rates)

Asian $ (closing rate in Singapore): Short-term 8 11/16-8 13/16 per cent; seven days 8 13/16-8 15/16 per cent; one month 9-9 1/8 per cent; three months 9 1/8-9 1/4 per cent; six months 10 1/16-10 3/16 per cent; one year 11-11 1/8 per cent. Long-term Eurodollars: two years 11 1/4-11 3/4 per cent; three years 12-12 1/2 per cent; four years 12 1/8-12 5/8 per cent; five years 12 1/2-12 3/4 per cent nominal. Short-term rates are call for U.S. dollars and Japanese yen: others two days' notice.

MONEY MARKETS

London suffers liquidity problem

THE LONDON money market is suffering from two problems at the moment: a severe shortage of day-to-day liquidity, and a lack of bills for the discount houses to sell to the Bank of England to relieve these shortages.

It appears that corporate customers of the clearing banks are reluctant to issue bills running for three or six months at present, because they do not believe that interest rates will remain at the present level for too long. These customers prefer to borrow on overdraft at the banks rather than issue paper, which may look extremely expensive in a few weks time. This has led to a lack of commercial paper in the market, but does not really fit in with the general sentiment as far as interest rates are concerned.

Oil prices and the value of the dollar remain crucial to any decision on base rates. The oil market was fairly stable last week, but the dollar was volatile, with no one knowing whether the pound wil rise to $1.20 or fal to parity within the next few months.

Moods of euphoria are quickly followed by periods of alarm, as the dollar moves erratically and interest rates prove equally difficult to gauge. Three-month interbank fell to 12 11/16 per cent before the mid-February money supply figures on Tuesday, but then moved up sharply as sterling M3 showed a disappointingly large rise of 0.5 per cent.

The pound managed to shrug off news about the abolition of the British National Oil Corporation, which initially led to fears of lower North Sea oil prices, but still looks vulnerable to any further oil price news, while the latest money supply figures hardly see mto justify lower interest rates.

But any potential issuer of bills is probably waiting for tomorrow's Budget.

Whatever the result, drawers of bills are likely to be forced to reissue paper as more bills mature, but the discount houses hope it will be sooner rather than later, because the bills must be seven days old before the Bank of England will accept them in its daily money market operations.

UK clearing banks base lending rate 14 per cent since January 28

MONEY RATES

March 10	Frankfurt	Paris	Zurich	Amst'dam	Tokyo	Milan	Brussels	Dublin
Overnight	0.90-6.00	10 5/8	1 7/8-2 1/8	7-7 1/8	6.40625	16 1/4-10 1/4	9.70	14 1/4-14 3/4
One month	6.10-6.22	10 11/16-10 13/16	5 1/8-5 3/4	7 1/16-7 3/16	6.53120	15 5/8-16	10 5/8-10 7/8	14 3/8-14 5/8
Two months	6.20-6.35	10 3/4-10 7/8	—	—	—	—	—	14 1/2-14 3/4
Three months	0.30-6.45	10 3/4-10 7/8	5 11/16-5 13/16	7 3/16-7 7/16	6.54575	16-16 1/4	10 5/8-11	14 1/2-14 3/4
Six months	0.50-6.65	10 3/4-10 7/8	—	7 5/8-7 1/2	—	—	10 7/8-11 1/8	14 1/4-14 1/2
Lombard	0.0	—	—	—	—	—	—	—
Intervervention	—	10 1/2	—	5 7/8	—	—	—	—

LONDON MONEY RATES

Discount Houses Deposit and Bill Rates

Mar. 10 1985	Sterling Certificate of deposit	Interbank	Local Authority deposits	Company Deposits	Market Deposits	Treasury (Buy)	Treasury (Sell)	Eligible Bank (Buy)	Eligible Bank (Sell)	Fine Trade (Buy)
Overnight	—	11-15 1/8	14 3/4-10	14 1/8-10 1/8	7-14 3/8	—	—	—	—	—
2 days notice	—	—	14 3/8-14 3/4	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	—	—	—	—	—
7 days notice	—	14 3/4-10	14 7/8	10 1/8-10 1/4	14-14 1/4	—	—	—	—	—
One month	14 1/16-14 3/16	14 1/16-14 1/2	14 5/8	14 5/8	10 7/8	10 3/8	13 3/4	[illegible]	[illegible]	[illegible]
Two months	14-15 7/8	14-14 1/8	14 1/16	14 1/4	10	13 5/8	13 1/2	[illegible]	[illegible]	[illegible]
Three months	13 1/2-13 1/2	13 11/16-10 11/16	13 3/4	14 1/4	18 1/8	13 5/8	10 1/4	[illegible]	[illegible]	[illegible]
Six months	12 3/4-12 1/8	12 11/16-12 1/8	12 3/4	—	—	—	—	—	—	—
Nine months	[illegible]	[illegible]	[illegible]	—	—	—	—	—	—	—
One year	[illegible]	[illegible]	[illegible]	—	—	—	—	—	—	—

	Local Auth. negotiable bonds	Local Authority Deposits	Finance House Deposits	$ Cert of Deposits	SDR Linked Deposits	ECU Linked Deposits
One month	10 1/4-14 7/8	—	14 1/4	8.65-8.95	8 3/4-9	10 1/16-10 1/8
Two months	14 5/8-14 1/4	—	14	2.1-9.2	8 7/8-2 1/8	10 3/8-10 1/2
Three months	14 1/16-13 11/16	—	13 7/16	0.5-9.4	9 1/16-9 7/16	10 3/8-10 1/2
Six months	13 3/8-15	—	15	0.9-10.0	2 1/8-9 5/8	10 5/8-10 7/16
Nine months	10 1/8-12 3/4	—	18 3/4	10.45-10.55	—	—
One year	12 7/8-12 1/2	—	12 3/4	10.9-11.0	0 11/16-9 1/16	10 3/8-10 5/8
Two years	—	12 1/8	—	—	—	—
Three years	—	12	—	—	—	—
Four years	—	12	—	—	—	—
Five years	—	12	—	—	—	—

ECGD Fixed Rate Export Finance IV: Average Rate of Interest period February 6 to March 6 1985 (inclusive): 13.883 per cent. Local authorities and finance houses seven days' notice, others seven days' fixed. Finance Houses Base Rate (published by the Finance Houses Association): 12 1/2 per cent from March 1 1985. London and Scottish Clearing Bank Rates for lending 14 per cent. London Deposit Rates for sums at seven days' notice 11-11 1/2 per cent. Treasury Bills: Average tender rates of discount 13.1761 per cent. Certificates of Tax Deposit (Series 5): Deposits £100,000 and over held under one month 14 per cent; one-three months 13 3/4 per cent; three-six months 13 3/4 per cent; six-nine months 12 3/4 per cent; nine-12 months 12 1/2 per cent. Under £100,000 12 per cent from March 12. Deposits held under Series 5 12 1/2 per cent. The rate for all deposits withdrawn for cash 6 per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. March 15)

Three months U.S. dollars

bid 9 1/2 offer 9 5/8

Six months U.S. dollars

bid 10 1/8 offer 10 1/4

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY MARKETS

NEW YORK (4 pm)

Prime rate	10 1/2
Broker loan rate	9 3/4-10
Fed funds	8 7/8
Fed funds at intervention	8 15/16

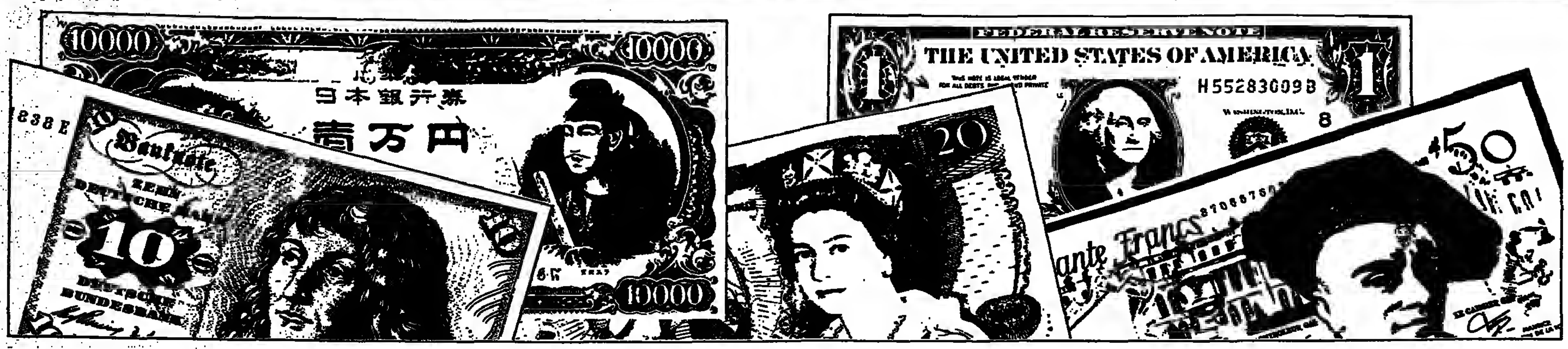
Treasury Bills

One month	7.96
Two month	8.40
Three month	8.41
Six month	8.99
One year	9.17

Treasury Bonds

Two year	98 27/32
Three year	99 1/4
Four year	97 7/32
Five year	98 27/32
Seven year	98 7/8
10 year	96 7/8
30 year	98 5/32

FINANCIAL TIMES SURVEY



International Capital Markets

Securities come to the fore

BY PETER MONTAGNON

International capital markets have opted for securitisation but the abundance of new instruments suggests they are still in a state of flux. Competition rages as never before with banks seeking to snatch market share, either by paring returns to the bone or by devising an increasing number of fanciful innovations.

SECURITY conscious. That is perhaps the best way of describing the international capital markets at the start of 1985. This is not just because after three years of developing country debt crisis bankers are still very choosy about whom they do business with. It is also, and even more important, because of the way in which most business is now being done—through the securities market, rather than by direct bank lending.

The amounts of money intermediated through the capital markets remained very large last year, totalling no less than $227bn, according to the Organisation for Economic Co-operation and Development (OECD). But the syndicated loan market again took a back seat to the international bond markets, where volume soared largely because of the growing popularity of the floating rate note market.

And during 1984 a new form of capital market vehicle, the Euronote issuance facility, established a firm boid on market sbare, eroding still further the power and position of the big commercial banks.

The Euromarkets have now become a battleground in which the big commercial banks are struggling to maintain their influence against an up-and-coming pbalanx of investment banks.

The availability of large amounts of money to lend, once the commercial bankers' trump card, no longer counts for much wben their customers can raise cheaper funds elsewhere.

The strength of the investment banks lies in their highly developed ability to provide just this service. By securitising debt and making it negotiable they are able to sell it direct to investors, bypassing the traditional intermediation performed by commercial banks.

This can often be done at rates lower than those at which banks can afford to lend. Sweden, for example, is able to borrow in the Euronote market at five basis points (hundredths of a percentage point) lower than the London interbank bid rate for Eurodollar depoprits, which constitutes the actual cost of money to the banking system.

So confident of its rating is Norsk Hydro, the Norwegian energy and chemicals concern, that its finance director, Mr Georg Stormer says be will place initial proceeds of the company's new Euro-commercial paper programme on deposit with banks at a profit.

For commercial banks this development is nothing short of sinister. Buffettad by the developing country debt crisis they have seen their own credit-standing slip below that of soma of their most sought-after borrowers. The declining revenues of Opec countries bas made it harder for them to attract deposits and they bave had no cboice but to cede business in the capital markets to the more efficient and sophisticated securities sector.

At its most extreme this process risks forcing commercial banks to fall back on those borrowers whose credit-rating is so low they cannot borrow in the securities market. The overall quality of their assets wonld then decline and with it, in a downward spiralling vicious circle, their own credit standing in the marketplace.

But now, bowever, many of the big banks which used to dominate the syndicated loan market bave realised that they have to fight back by challenging the investment banks at their own business. Last summer Citicorp announced in London that it was disbanding its syndicated loan division to permit a more flexible marketing strategy for a whola range of Euromarket products. Similar, but more discreet, organisational changes have taken place at other banks sucb as Bank of America and Lloyds Bank International as they seek to develop and expand their expertise and placing power in the market for bonds and short-term securities.

For the new emphasis on securities business is not just a question of commercial banks becoming atropbied. The securities business is booming for other reasons too. More buyers are around, especially in Japan where the financial muscle of the pensions and insurance industry is huge and growing.

Compnterisation and tbe development of the swap market has added immeasurably to the range of opportunities available. And round the world regulations are being broken down in a way that can only make the business of issuing and dealing in international securities freer, and therefore more efficient than ever before.

Indeed, some bankers argue that 1984 will be seen by historians as a watershed year in tha international capital markets. Not only did the U.S. finally decide to abolish withholding tax on interest paid to non-residents, enabling the Treasury and other Government agencies to borrow for the first time in the Eurobond market. Similar steps were taken in other countries, such as Germany and France.

Under pressure from the U.S., Japan agreed to liberalise its own financial markets, creating new opportunities for foreign banks to do business in yen through the development of the Euroyen bond and certificate of deposit market.

Elsewhere the City revolution has begun to break down traditional demarcations in London, while even conservative Switzerland bas agreed to let foreign banks lead bond issues and private placements denominated in Swiss Francs.

Coupled with the rapid development of the swap market (in which debtors can swap

CONTINUED ON NEXT PAGE

CONTENTS

Pull from U.S. set to continue

World Economy
MAX WILKINSON

MOST OF the major uncertainties about the world's economic prospects can be seen in deceptively simple-looking graph in the shape of an X.

The upstroke shows the extraordinary rise of the U.S. dollar, which has appreciated with only a few minor interruptions by about 45 per cent during the last four years.

The downstroke shows the rapid deterioration of the U.S. current account of the balance of payments from a small surplus in 1981 into a deficit of $100bn last year. This year, the current account deficit is generally expected to rise to $130bn, with figures of around $150bn predicted for 1986.

This means that even if the growth of the U.S. economy is halved from the 6.8 per cent achieved in 1984, American imports will continue to exert a powerful pull on the economy of the rest of the world.

This is expected by most commentators to help Europe and Japan to continue to grow at a steady pace this year, with Japan achieving perhaps 5 per cent and Europe about 2½ per cent.

The Organisation for Economic Co-operation and Development (OECD) in Paris is predicting thet the industrial world's average growth will settle down from about 4½ per cent last year to 3 per cent this year, slowing further in the first half of 1986.

Consequences

Most of this slowdown would be the arithmetical consequence of more moderate expansion in the U.S. Overall, the world is expected to approach that long desired "convergence" in economic performance, with growth rates close together and annual inflation rates in most major countries only a few percentage points either side of 5 per cent.

A general feeling of optimism has been fostered by the much better than expected performance of the world's economy in 1984. World trade grew by more than 9 per cent, which was far more than most forecasters had predicted, and the best performance for at least eight years.

This helped the developing countries' economies to grow by an average of about 3½ per cent, a low figure by the standards of previous decades, but easily the fastest expansion since 1979. This, combined with restraint on imports, enabled them to make big strides in reducing their current account deficits, and so reduced the threat of a world debt crisis much more than most observers had dared to hope.

All the predictions that the U.S. growth would slow down sharply—or collapse into recession—under the growing weight of the Federal debt heve been proved wrong. The slowing has been gradual, and despite widespread predictions to the contrary, has been accompanied by continued moderate inflation.

But that puzzling upward stroke of the X remains, also defying forecasts and challenging rational explanation. A year ago, when dollar denominated interest rates were on a clearly upward trend, it was easy to argue that capital flows attracted by high relative interest rates dwarfed the depressive effect of the trade balance on the dollar's value.

Since last summer, however, there has been a marked decline in U.S. interest rates, with the three-month Certificate of Deposit rate down to around 8½ per cent by the beginning of March compared with 11¾ per cent in early July. Although long-term bond rates have moved more slowly they are also substantially down from last summer's peak partly because of greater confidence that inflation will remain low.

More spectacularly, as the broker Wood Mackenzie has shown, the gap between U.S. short-term interest rates and the weighted average for the rest of tha world fell from about 3 percentage points last summer to zero by the beginning of this year.

It might be argued that because of an improved U.S. inflation performance the gep in real yields has not changed very much. However, this could hardly explain the perverse beheviour of the dollar, which has continued to breach new records as the relative yield of dollar assets has diminished.

Controlled glide

Yet, in spite of a chorus of predictions that the dollar will eventually fall out of the sky, and attempts by central banks to promote a controlled glide before it reaches stalling altitude, investers have continued to queue for e ride.

Does this matter for the world's economy? It is possible that an uneasy balance will be maintained throughout this year, with the U.S.'s deepening trade deficit matched by a growing current account surplus en the part of Japan and Europe.

The EEC countries are expected on present trends to achieve e current account surplus of $9½bn this year compared with a deficit of $1bn in 1984. Japan is forecast to increase its surplus to ebout $40bn, which would be 25 per cent higher than last year's figure and twice the surplus in 1983.

The increased flow of exports from Japan and the EEC into the U.S. would have to be counterbalanced by a rising net capital inflow to the U.S.

This process clearly cannot go on for ever and is partly self-adjusting. The increased leakage of U.S. demand into imports, the squeeze on company profits caused by the high dollar and the drag of high interest real rates on investment must eventually combine to slow the pace of U.S. growth.

Slower growth will reduce the pressure of demand for more imports, but it will do nothing by itself to ease the pressure on the Federal deficit so that interest rates may well remain high.

The main question is whether a gentle slowing down of the U.S. economy, with perhaps some easing of the dollar's international valne, can be achieved without e precipitant crash er damaging import controls.

If a sudden reversal of investor's confidence did cause a crash of the dollar, it is hard to see what would stop it, apart, perhaps, from the lack of ebvious havens for the money to shelter in.

One effect would be a sharp initial worsening of the U.S. current account deficit, before the improved competitiveness had time to stimulate exports. U.S. inflationary pressures would increase as would the difficulty of financing the Federal deficit, so there weuld be upward pressure on U.S. interest rates, with probably a rise in the dollar price of commodities.

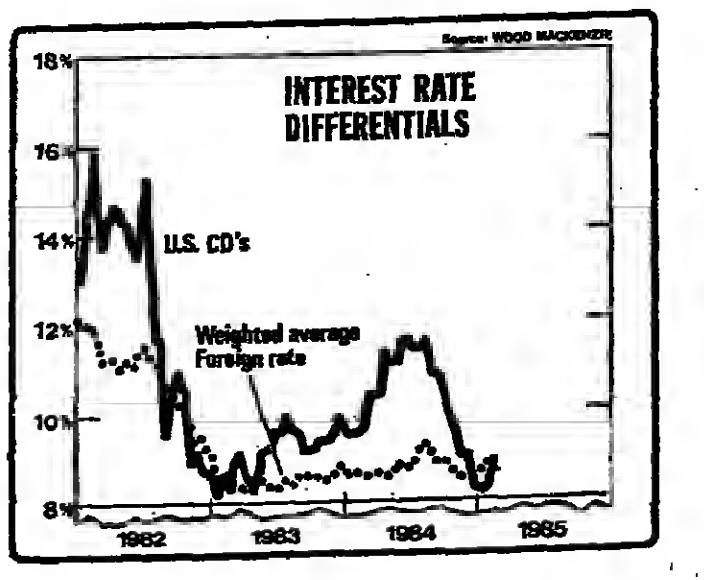
This might be some help te developing countries with large debts denominated in dollars, but the ability of oil-producing countries to buy imports from Europe and Japan would be diminished. A major fall ef the dollar would certainly put strong pressure on the Opec cartel with incalculable results.

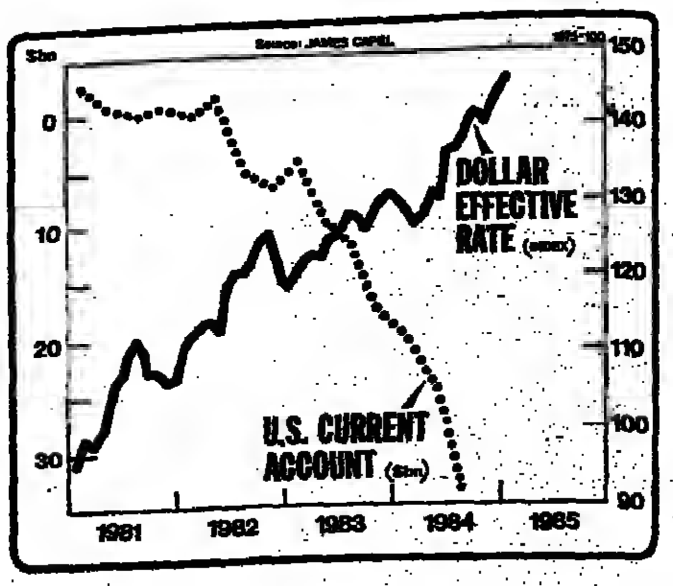
For Europe and Japan the immediate question would be the extent to which fiscal or monetary policy should be eased to make up for the eventual cut in exports to the U.S. The most likely response would be an easing of interest rates.

For Europe at least, sn essing of interest rates would do little to help the army of unemployed unless the economies proved flexible enough to expand in step with the diminishing opportunities to export to the U.S. Recent history is not encouraging on this point.

OECD forecasts

Percentage changes from previous period	1983	1984	1985
Real GNP			
U.S.	3.7	6¾	3
Japan	3.0	5¾	5
OECD Europe	1.3	2¼	2½
Total OECD	2.6	4¾	3
Real total domestic demand			
U.S.	5.0	8¾	3¾
Japan	1.6	4¼	4¾
OECD Europe	1.0	2	2
Total OECD	2.7	5¼	3
Inflation (private consumption deflator)			
U.S.	3.7	3½	3½
Japan	1.6	2¼	2½
Total OECD	5.3	5	4½
		($bn)	
Current balances			
U.S.	−41.6	−100	−121
Japan	20.8	32	40
Germany	4.1	2	7
Total OECD	−24.8	−71	−86





Higher the rise harder the fall

Interest and Exchange Rates
PHILIP STEPHENS

THE script has not changed but the lenger the storyline runs the more spectacular the ending may be.

Central bankers, economists and politicians have found predicting a decisive fall in the value of the dollar a forecasters' graveyard.

Each new prophecy of impending doom for the U.S. currency appears only to whet the appetite of the investors who have been pouring funds into dollar assets for the past four years.

At the beginning of 1983 the forecasters were convinced that the turn was imminent. The dollar spent the next year gaining another 15 per cent in value.

Unabashed, economists are still generally agreed that the dollar's strength — and the huge budget and current account deficits associated with it—are unsustainable.

But few predict with any certainty when the "inevitable" will occur. And when it does whether there will he e "hard landing," with U.S. interest rates spiralling upwards as the doller plummets.

Or whether the consummate skills shown by Mr Paul Volcker and his U.S. Federal Reserve in steering the U.S. economy through the strongest recovery in 30 years can yet ensure a gradual and ordered decline for the dollar.

The higher it goes the more danger that the outcome will be the former. The best guess of most economists is that the dollar is already about 40 per cent overvalued against other leading currencies.

Mr C. Fred Bergsten, director of the Washington-based Institute for International Economics and one of the most eloquent prophets of doom, puts a forceful case for a dramatic reversal unless the U.S. acts quickly to make major cuts in its budget deficit.

A few statistics tell the story: On current trends, by the end of this year the U.S. will be a bigger net debtor than Brazil. By the end of the decade its debts will exceed the total owed by all developing countries.

Even if the dollar stopped rising now its huge current account deficits would leave the U.S. with something like $1,000bn of fereign debt by the early 1990s.

At the same time the U.S. manufacturing base, its farm and its tradeable services industries would be decimated.

But if it seems obvious that such e trend is not sustainable —thet either the internal pressures towards protectionism or the saturatien of overseas portfolios with dollar assets will bring the dollar crashing down —there is little sign yet of a crunch.

Part of the doller's recent rise can be described as speculative "froth." But the European central banks which have spent billions of dollars trying te halt the upward trend will testify to the strong underlying demand for dollars.

The huge surplus of Japanese savings and the inertia of most European economies, relative to the dynamism in the U.S., remain a convincing argument fer investors to put the bulk ef their funds in dollar assets.

President Reagan's explanation of the dollar'a strength as simply e reflection of the superiority ef the U.S. economy is clearly far from the whole story. But it is the kernel of truth in the argument that probably explains the fury it arouses among European governments.

At the same time although protectionist pressures in the U.S. are clearly growing they are not yet threatening a collapse of the world trading system.

The central forecast of many economists therefore is that the surplus of world savings over demand outside the U.S. could well hold the dollar at present levels or push it higher over the short term.

The problem for other economies and capital markets outside the U.S. would then be to what extent they could continue to insulate themselves from the strength of the U.S. currency and the possibility of higher U.S. interest rates.

The performance of other major bond markets—with the notable exception of the UK which has suffered particular problems—has so far been encouraging.

During 1984 the D-Mark lost around 15 per cent of its value against the dollar. At the same time West German short-term interest rates were stable at just over 6 per cent and the yield on 10-year bonds fell to around 7½ per cent from 8½ per cent.

The yen suffered less than most other currencies, losing about 8 per cent against the dollar. Japanese short-term interest rates were steady at just under 6½ per cent and 10-year bond yields fell to around 6¾ per cent from 7½ per cent.

Industrial strife

Only Britain, which saw the dollar's strength compounded by industrial strife and falling oil prices, experienced a sharp rise in interest rates. By January the pound's fall had pushed short-term interest rates up to 14 per cent and 15-year bond yields up to 11½ per cent.

The key to the relatively good performance of most bood markets outside the U.S. has been the expectation that the dollar must eventually fall, providing an exchange rate bonus to investors to compensate them for a lower rate of real returns.

Since last summer they have also been helped by the sharp fall in short-term interest rates in the U.S., which has pushed the Fed Funds rate down to around 8½ per cent.

Whether the world's capital markets can continue to insulate themselves from events in the U.S. at a time when most forecasters are predicting a rise in interest rates as the U.S. economy regains some momentum is more doubtful.

Mr Volcker has made clear thet unless Congress takes credible action to cut the budget deficit the expectation must be of higher U.S. interest rates to attract the foreign funds needed to finance it.

The strength of the dollar has provided some cushion for the Fed in assessing whether monetary policy needs to be tightened to dampen inflation but it is clear that the process of easing credit which began last summer has come to an end.

Mr Volcker's view is that the "soft landing" for the dollar can only be achieved if substantial cuts in the budget deficit (perhaps in the order of $40bn to $50bn this year with the promise of much more in other years) allow the coincidence of declining interest rates and a gentle fall in the U.S. currency's value.

The problem is that the squaring up in Congress so far with the Democrats unwilling to give any comfort to the Administration ahead of next year's elections points to a half-hearted compromise which would not be enough to have any real impact on U.S. interest rates.

That scenario—which of course presumes that the dollar does not crash in the meantime—points to at best stable U.S. interest rates and quite possibly some further rise.

Central forecast

The central forecast of most economists is that long-term bond yields in the U.S. cannot be expected to move much below 11 per cent over the next year, with the balance of probability pointing to a level closer to 12 per cent.

The best hope for non-dollar capital markets would then be that investors remain willing to accept lower returns because of the risk of a dollar collapse.

But there must remain considerable doubts over how much further interest rates in the rest of the world can be de-coupled from those in the U.S.

It may be that the higher the dollar goes the more of a premium investors in the U.S. will demand in terms of relative interest rates to compensate them for the danger of a dramatic reversal in the dollar's fortunes.

But it could be that the end of the dollar's success story is still a long way off, and that other currencies and bond markets will have to pay the price for some time yet.

Mr Paul Volcker, chairman of the U.S. Federal Reserve Board: **showing consummate skills in steering the U.S. economy through the strongest recovery in 30 years**

Securities come to the fore

CONTINUED FROM PAGE 1

borrowings to shift from one currency to another and from fixed to floating rate er vice versa), this all adds up to what professionals now call e global securities market in which precise needs of borrowers and investers can he met even when they do not superficially appear to match.

For example, a U.S. corporation wanting fixed rate dollars at a time when Wall Street is weak can raise the money in yen and swap it into dollars.

Even more remarkable, an investor who wants to add to his portfolio of British Government gilt-edged stock and increase his exposure in yen can theoretically de just that by buying gilt-edged and swapping the helding into Japanese currency. In the process he might find himself picking up a higher yield than if he had just bought Japanese Government stock.

But this brave new world is far from being an easy one for the banks that new aeek to master it. For a start competition rages as never before as participants seek to snatch market share, either by lowering their prices to apparently suicidal levels or by devising more and more fanciful innovations.

The cognoscenti are having a field day in the Euromarkets and new jargon is being edded to their vocabulary almost daily. As with the zeal with which medieval monks once debated how many angels could dance en the head of a pin, bankers home in on the advantages of such unlikely sounding devices as flip-flop floaters and Guns (grantor underwritten notes).

The international capital market may have opted for securitisation but the abundance of new instruments suggests that it is still in a state of flux.

Moreover, it is also a pointer to a much more serious problem that lies ahead. This is the simple fact that there may not be enough new business avaible to satisfy the needs of all those who want a slice of the cake.

The mammoth recycling task necessitated by the oil shocks of the 1970s is now largely complete. In the main sovereign borrowers need less money than before and other clients, such es large industrial corporations, are now very liquid.

Volume last year was driven hy the willingness of many countries, such as Sweden, to renegotiate their debt to echieve lower cost. But that process is also now more pr less exhausted. Bankers have to hustle for business as never before.

With margins dropping, only volume can bring an increase in return and as volume grows so does risk.

Suddenly investment banks have found their balance sheets growing as their inventory of unsold securities expands. That is all right as long as the stocks can be financed at a profit. But what if the yield curve changes or the dollar crashes and there is a sell-off in the bond markets? Then the losses would really hurt.

Thet is a sobering thought, but it is one that is now uppermost in many bankers' minds. Securitisation may have been a boon to borrowers; it may offer untold new opportunities to investors. But one thing it has not yet done is open the door to easy profit for those who depend on the marketplace for their living.

هكذا من الأصل

This announcement appears as a matter of record only.

FEBRUARY 1985

U.S. $450,000,000

HNG

Houston Natural Gas Corporation

Euro-Note Purchase Facility

Arranged by

Credit Suisse First Boston Limited

Lead Managers

Amsterdam-Rotterdam Bank N.V.
Bank of Tokyo International Limited
Commerzbank Aktiengesellschaft
Credit Suisse
IBJ International Limited
Sumitomo Finance International
Swiss Bank Corporation International Limited
Toronto Dominion International Limited
Union Bank of Switzerland
Westpac Banking Corporation

Managers

Bank of Montreal
Crédit Lyonnais
Orion Royal Bank Limited
Banque Indosuez
Banque Nationale de Paris

Participants

Associated Japanese Bank (International) Limited
Banque Paribas
Banque de la Société Financière Européenne SFE Group

Tender Panel Members

Amro International Limited
Associated Japanese Bank (International) Limited
Bank of Montreal
Bank of Tokyo International Limited
Banque Indosuez
Banque Paribas Capital Markets
Banque de la Société Financière Européenne SFE Group
Commerzbank Aktiengesellschaft
Crédit Lyonnais
IBJ International Limited
Orion Royal Bank Limited
Sumitomo Finance International
Swiss Bank Corporation International Limited
Toronto Dominion International Limited
Union Bank of Switzerland (Securities) Limited
Westpac Banking Corporation

Facility Agent

Credit Suisse First Boston Limited

NEW ISSUE

These Debentures were offered and sold outside the United States.
This announcement appears as a matter of record only.

DECEMBER 1984

The Debentures, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than the Federal National Mortgage Association.

U.S. $300,000,000

Federal National Mortgage Association

(Chartered under an Act of the United States Congress)

11½% Debentures Due 1991

FannieMae

Credit Suisse First Boston Limited

Deutsche Bank Aktiengesellschaft
Goldman Sachs International Corp.
Swiss Bank Corporation International Limited
Union Bank of Switzerland (Securities) Limited
Merrill Lynch Capital Markets
Morgan Stanley International
Nomura International Limited
Salomon Brothers International Limited
Amro International Limited
BankAmerica Capital Markets Group
Bank of Tokyo International Limited
Banque Bruxelles Lambert S.A.
Banque Nationale de Paris
Baring Brothers & Co., Limited
County Bank Limited
Morgan Grenfell & Co. Limited
S.G. Warburg & Co. Ltd.

NEW ISSUE

This announcement appears as a matter of record only.
These Notes and Warrants have not been registered under the United States Securities Act of 1933 and may not be offered or sold in the United States of America or to nationals or residents thereof.

JANUARY 1985

U.S. $150,000,000

The Standard Oil Company

(an Ohio Corporation)

10½% Notes Due 1989
and 150,000 Warrants to Purchase
U.S. $150,000,000 10% Notes Due 1992

Credit Suisse First Boston Limited

Banque Paribas Capital Markets
Deutsche Bank Aktiengesellschaft
Union Bank of Switzerland (Securities) Limited

Banca del Gottardo
Bank Gutzwiller, Kurz, Bungener (Overseas) Limited
Bank Leu International Ltd.
Banque Bruxelles Lambert S.A.
Banque Nationale de Paris
Banque Populaire Suisse S.A. Luxembourg
Dai-Ichi Kangyo International Limited
Fuji International Finance Limited
Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft
Hill Samuel & Co. Limited
IBJ International Limited
Lloyds Bank International Limited
LTCB International Limited
Mitsubishi Finance International Limited
Nomura International Limited
Orion Royal Bank Limited
Rothschild Bank AG
Svenska Handelsbanken Group
Swiss Bank Corporation International Limited
Yamaichi International (Europe) Limited

CIBA-GEIGY AG

has sold the

Airwick Group

to

Reckitt & Colman plc

The undersigned acted as financial advisers to CIBA-GEIGY AG and assisted in the negotiations leading to this transaction.

Credit Suisse First Boston Limited
The First Boston Corporation

March 1985

CSFB

22 Bishopsgate, London EC2N 4BQ

Euphoria fades as problems remain acute

Debt Crisis
PETER MONTAGNON

LAST December's International Monetary Fund ratification of Argentina's economic programme unleashed a wave of euphoria in the international banking community. The last recalcitrant debtor had been brought to heel and, as a result, the developing country debt crisis finally seemed to be under control.

The relief was to be short-lived. Barely two months later the IMF suspended its loan programme to Brazil because of its failure to meet key domestic monetary targets. As inflation climbed inexorably in Argentina there was talk, too, of that country's programme coming off the rails. Unusually tough discussions were going on with Mexico about its targets for 1985.

January's euphoria has now given way to the grim realisation that, despite the progress of the past year, a long hard slog still lies ahead for debtors and creditors alike. In their latest round of debt rescheduling agreements, commercial banks have made many concessions. For their part the debtors have made great strides in improving their external accounts. This, however, cannot obscure the fact that in most of the countries concerned domestic economic problems remain acute.

Since last summer a new approach has characterised commercial bank thinking on rescheduling. Instead of devising programmes that wreak vengeance on the debtors for the problems that have arisen, they now aim for agreements designed to aid recovery over the longer-term.

Renegotiation fees have been scrapped; so, generally, has the practice of charging interest margins over the expensive U.S. prime rate. Margins over Eurocurrency rates have fallen sharply while maturities have lengthened. Multi-year arrangements in which debt maturing for several years ahead is rescheduled all at once have become the norm. This has the obvious advantage of eliminating repayments humps in the second half of the current decade.

In their way these new arrangements are revolutionary, but they do not go nearly as far as some of the proposals that went the rounds last spring when interest rates were rising.

Governments in the OECD (Organisation for Economic Co-operation and Development) countries have successfully resisted pressure for a global solution to the debt crisis. Problems are still handled on a case-by-case basis and debtors are still expected to pay interest at market rates without any form of capping or capitalisation that once seemed likely.

That, coupled with a continuing shortage of new credit, means that they remain forced to generate large surpluses on their foreign trade to provide the cash needed for interest payments.

This has two main consequences: first the large and politically damaging net transfer of financial resources out of Latin America has continued (the Cartagena group of debtor countries puts it at $55bn last year), and second prospects for economic growth have been impaired.

According to the U.S. Economic Commission for Latin America and the Caribbean, economic output in the region expanded by 2.6 per cent last year, following contractions in both 1982 and 1983.

However, growth produced only a minimal recovery in living standards, which rose just 0.2 per cent, with 12 of the 19 countries surveyed experiencing absolute declines in per capita income.

After a year in which the region's aggregate trade surplus jumped to $37.6bn from only $9.7bn in 1983, attention has thus switched to ways in which the economic recovery can be made to accelerate.

Here many of the countries concerned, including three of the largest debtors, Brazil, Argentina and Mexico, have run up against IMF worries about their level of inflation. In Argentina inflation ran at an annual rate of 776 per cent in January, in Brazil it was close to 300 per cent and even in Mexico it fell last year to only about 60 per cent compared with a target of 40 per cent.

What now seems to be emerging is a situation in which the spotlight has shifted away from the financial plane and on to the more general debate about the degree to which the IMF can continue to demand economic austerity of the debtors. In short, the debt crisis has become less of a banking issue and more of a political one.

Bank creditors can do little more than stand idly by and hope for the best when, the IMF suspends its loan programme to Brazil. For the most part commercial bank rescheduling arrangements have worked reasonably well. There have been problems in drafting the legal contract for some of the new mega-rescheduling deals, particularly with the increasingly common clauses allowing non-U.S. creditors to switch their loans into currencies other than the dollar. The banking systems, however, has shown itself surprisingly willing to provide new credit to those countries that still need it.

But this willingness could be undermined if friction between the IMF and the major debtors became more explicit. Already some smaller countries without much leverage on the banking system have found the going harder.

It has taken longer than expected to raise new credits of $75m and $200m respectively for Costa Rica and Ecuador. And a major test looms in the case of Chile which could be seeking a loan as large as $1bn to meet its foreign finance needs for 1985.

Much therefore still depends on the degree to which a confrontation between debtor and creditor governments can be avoided. A lot of factors come into play besides the political determination of the debtors to continue adjusting their economies. Will growth in the industrial world remain robust enough for the debtors to increase their exports further? Can protectionism be resisted? Will interest rates rise again, adding to the burden of debt service? And can alternative forms of non-bank credit be found to finance recovery of the debtor economies?

Many uncertainties thus remain. It will be some years yet before any but the most blinkered optimist can claim with conviction that the debt crisis is really over.

Major commercial bank reschedulings

	Amount ($bn)	Years covered	Maturity (years)	Interest margin†	New credit ($m)
Argentina	16	1982-85	12	1¾	4,200
Brazil*	45.3	1985-91	16	1⅞	—
Ecuador	4.3	1985-89	12	1¾	200
Mexico	48.7	1985-90	14	1⅛	—
Philippines	5.8	1983-86	10	1⅞	925
Venezuela	20.75	1983-88	12½	1⅞	—
Yugoslavia	3.5	1985-88	under negotiation		—

* Brazil figures not yet confirmed. Discussions also still pending for Peru, Chile and Uruguay. † Average margin where applicable.

City revolution to draw in foreign business

London
DAVID LASCELLES

THE UK Government has backed the huge changes that have been reshaping the City in the past 18 months because it wants more competition in Britain's rather protected—even quaint — domestic financial markets. But Mrs Thatcher's administration has also made no secret of the fact that it is encouraging greater openness to ensure London's place as the premier financial centre of Europe.

Not that that place was in doubt: there are now some 400 foreign banks in London, with more arriving all the time, and the City has been home to the Euromarkets for years. But as the global banking market settles down into three time zones, based on the Far East, Europe and New York, the Tory Government is determined to use every opportunity to draw business to London.

This means that while the structural changes are actually taking place in the domestic markets, like the Stock Exchange and the gilt-edged or Treasury bond market, the Government has been careful to create a tax and regulatory regime that also makes London an attractive place for foreign institutions.

Judging by the rush of Europeans and Americans to invest in City firms recently, the policy is working. At the latest count, more than a dozen foreign commercial or investment banks, were on their way to becoming members of the Stock Exchange or dealers in the gilts market, or both.

The upheaval dates back to 1983 when the Stock Exchange agreed to end its decades old system of fixed commissions to avoid a restrictive practices action by the Government. This quickly led to other historic changes, notably decisions to throw the Exchange open to much wider membership, and to end the practice of "single capacity": the strict separation of the broking and market-making functions on the Exchange.

At the same time, the Bank of England (which supported the idea of more competition) took the opportunity to reshape the gilt-edged market which—unlike Wall Street— was part of the Stock Exchange. Last year, the Bank came out with proposals to create a U.S.-style system of primary dealers who will have special access to the Bank in return for committing themselves to making markets in Government stock.

The Bank is also allowing banks to take a direct stake in the discount market—the highly sensitive money markets through which it deals with the UK banking system. This market has traditionally been the preserve of the independent discount houses. Ironically, though, the first bank to take advantage of this new opening was not British but Citicorp of New York when it bought a discount house, Seccombe, Marshall & Campion in February.

The result of all these changes (some of which—like opening up the Exchange—will not actually take effect until next year) is that financial institutions can for the first time in the UK assemble under one roof virtually all the functions of the financial markets: banking, broking, market-making, underwriting and bill discounting. Hence the great rush of mergers or takeovers.

In the past year or so, all the largest jobbing (market-making) firms have been bought out by banks. So have all but one of the largest 20 stockbrokers. (At the moment, outsiders can only buy 29.9 per cent of them, but this has been enough to seal deals which will take ownership to 100 per cent when Stock Exchange rules are changed next year.) After the Seccombe deal, more discount houses could join this list.

These firms are now being moulded into new conglomerates. One of the most ambitious is being put together by S. G. Warburg, the merchant bank, which is forging alliances with not one but three other firms (two stockbrokers and a jobber) to make what Mr David Scholey, Warburg's chairman, claims will be a world scale investment bank. Similar groups are being created by Barclays Bank and by National Westminster Bank through County Bank, its merchant banking arm.

Citicorp, Chase Manhattan, Security Pacific, Union Bank of Switzerland and Hongkong Bank are among the groups from overseas which have also made acquisitions.

But whether or not they have actually bought securities firms, virtually all commercial and merchant banks in London are now building up staff and capacity to deal in securities in anticipation of "Big Bang," the as-yet unnamed date next year when liberalisation will take place.

The rationale behind all these deals is that the successful financial institution of the future will have to be able to deal directly in all the world's major capital markets, not just to match the shift of corporate finance from bank lending to security issuing but to handle clients' investment needs.

Mr Charles Villiers, chairman of County Bank, notes that NatWest, as the biggest UK bank in market capitalisation terms, should be a major player in the domestic UK markets. However, County is taking a cautious line, going for what Mr Villiers describes as the "minimum critical mass" necessary to participate in the markets, rather than building a large group like Barclays or Warburg.

For the U.S. banks, there is the extra appeal of being allowed into equity markets which are barred to them at home by U.S. bank law.

But while unleashing these changes, the UK Government has also had to consider how best to regulate the new financial conglomerates that are emerging. The suddenness of the upheaval, along with the clear conflicts of interest that exist within many of the groups (who will be able to act as investors, brokers and market-makers simultaneously) have triggered concern about investor protection.

Mr Norman Tebbit, Secretary for Trade and Industry, has resisted calls for tight controls by proposing that the City regulate itself through Government-approved bodies. The scheme has been welcomed by the City, though what it really amounts to is a challenge to the City to prove that it can behave itself, because the alternative —something like the Securities and Exchange Commission of the U.S.—is only too plain.

The reduction in Stamp Duty for share transactions and cuts in corporation tax also help create a more attractive business climate. When Union Bank of Switzerland acquired Phillips and Drew, one of the largest stockbrokers, it specifically cited the lighter tax and regulatory environment of London as the reason why it was shifting business out of Zurich.

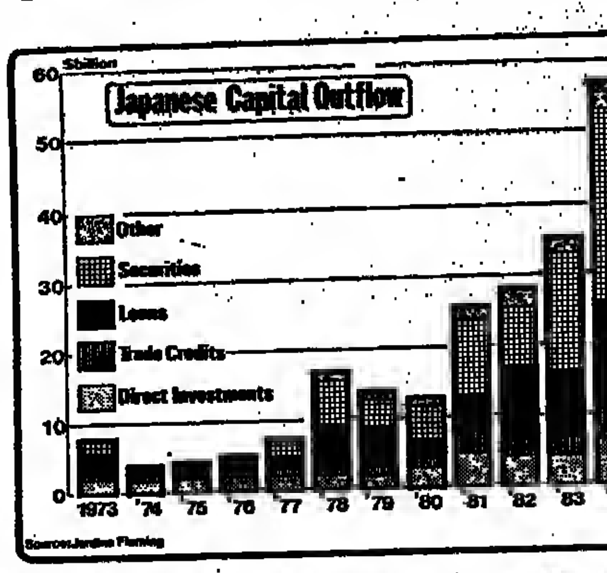
However, while the intense activity conveys a strong impression of change, it is worth remembering that little has actually happened yet. The new structures are being created, and the alliances formed. No-one, though, can claim that the new system will work or that the new conglomerates will operate profitably and in harmony.

Many sceptics are predicting that the whole exercise could "end in tears" as bankers, brokers and jobbers find they cannot work together. The sudden inflow of new capital will increase the trading base in markets like gilts by five or even tenfold, creating intense competition which is certain to bring heavy losses for some groups.

Whether or not these fears are justified, the answers will not come for a long time, and certainly not before "Big Bang," which, at the latest estimate, will be towards the end of next year.

Pace of reform in question

Tokyo
JUREK MARTIN



MOST foreigners in the financial field would like Tokyo to join London and New York as one of the three great global market places. They think it would be good for them, in that they would be able to handle even more of Japan's vast capital resources, and argue it would be good for Japan, too, if it ever intends to pull its full weight in the international financial and commercial world.

Most Japanese who count, in government and in the financial community, do not dispute the logic. What they quarrel with is the pace and means by which Japan attains the ultimate goal.

A segmented and regulated financial regime is not susceptible to rapid and wholesale reform along British or American lines, they argue. More privately, they will concede that there are parts of the Japanese financial community which are not yet ready to survive in a free, competitive climate against the likes of the more efficient domestic institutions or those from outside Japan. And that is the nub of the current debate over financial liberalisation.

Nowhere is the dichotomy more apparent at present than in the plans to allow foreign participation in the Japanese pension fund business.

Japan does not dispute that its society, rapidly ageing, needs better managed pension funds than the eight domestic trust banks and a separate coterie of life insurance companies have proven capable of providing. The expertise to manage this Y65 trillion (million million) pool certainly exists outside Japan.

Yet, when, some time this Spring, the Ministry of Finance announces the list of foreign institutions authorised to do trust management in Japan it appears almost certain that it will stop at the matching number of eight; and as the foreign institutions delve more deeply into the sort of regime the authorities have in mind it is becoming increasingly obvious that they are scaling down hopes of capturing anything larger than a modest slice of this vast pie—for the very basic reason that Japan is not about to allow any of its domestic institutions to go precipitately or unceremoniously to the wall. Domestic mergers and other "arrangements" may in time ensue, but not overnight.

Major force

It is one of the supreme ironies of the current situation that, while the Japanese domestic capital markets remain relatively restricted, Japanese funds are already a major force globally.

The long-term net capital outflow from Japan last year amounted to a fraction under U.S.$ 50bn, a record and comfortably in excess of the $35bn surplus on current account.

Japan has become the world's largest creditor nation and the great proportion of its external capital investment has been in the U.S. Intriguingly, the principal growth in the capital outflow has been accounted for by corporate treasurers.

That corporations have been looking at foreign securities purchases stems from two factors; the cash "elephantisis" now affecting so many successful Japanese companies and the lack of investment opportunities in Japan itself, both in its capital markets and in its industrial infrastructure.

It would be an exaggeration to suggest that Japan has been afflicted by under-investment in plant and equipment; the current wave of technological change has, in any case, ensured that this increase has remained respectable, in the ten per cent a year range.

But there is a growing consensus that Government caution has left the investment climate less than optimal—and has thus contributed to the flight of capital to where the grass—and the dollar—is greener.

This is not all bad news from the perspective of the foreign financial institution, which may do better from managing Japanese external investments than from competing, in a regulated and traditional environment, with domestic concerns.

The problem is that outflows may be reversed, either by direction of the Japanese Government, to whom the value of the yen is always a concern, or by a change in external circumstances, above all in the U.S., over which the Japanese authorities have far less influence.

Yet foreign fund managers are also in the business of investment inside Japan. Whereas roughly half of all Japanese capital investments outside Japan are in securities, the ratio for foreign investment in Japan rises to close to 100 per cent. The lack of alternative investment instruments to securities in Japan is itself another testament to existing Japanese rigidities, and though foreigners constitute an important element of trading on the Tokyo Stock Exchange none of them would dream of suggesting that they are members, in spirit or statute, of that particular club.

Barriers

After all, on Christmas Eve no less, the Japanese brokerage hierarchy turned down a singular opportunity to admit Merrill Lynch to membership of the Tokyo Stock Exchange.

Some other institutional barriers are being broken down, including, for example, foreign participation in Government bond syndicates and, significantly, in increased foreign roles in external underwriting of Euroyen issues.

But this market is, again predictably, taking time to develop and is itself still subject to Government interpretation.

Other potentially important changes on the stocks for this year run to the introduction of a banker's acceptance market, denominated in yen, for trade finance, and the more imminent introduction of money market certificates.

As with trust banking, the fine print of regulations will be critical. It is not beyond the realms of possibility that the Tokyo Stock Exchange itself will come up with a formula giving interested foreign firms some form of associated membership, though whether it proves worth the price of admission is another matter.

To summarise an immensely complex scene is not easy. In general the Japanese liberalisation evolution is proceeding apace, some areas faster than others. Foreign interest is unabated. A year, and possibly ten years, from now, the same conclusion may be in order.

The Tokyo Stock Exchange: foreign traders still outside the club

The partnership at work. From left: Jack Pope, American Airlines Senior VP and Treasurer; Bob Lewis, Chase Corporate Banking; and Tom Fiorito, Chase Capital Markets.

The Chase Partnership.

Investment and aerospace bankers working with American Airlines to meet their changing treasury needs.

Working from our unique depth of knowledge of the airline industry, Chase Investment Bankers and Relationship Monogers combine capabilities for innovative financial structuring, accessing new sources of funds as well as sophisticated assessment of risk—all within one organization. The result of this close collaboration: expeditious, effective financing solutions for our corporate customers worldwide.

The Chase Partnership

CHASE

Global Network   Industry Understanding   Investment Banking

Treasury Expertise   People

A challenge to London's crown

New York

PAUL TAYLOR

NEW YORK is challenging London as the financial capital of the world, buoyed by the momentum of the U.S. economy, far-reaching financial deregulation and imaginative innovations. Indeed, some people, particularly New Yorkers themselves — believe that New York has already stolen the crown as the main centre of international capital.

Virtually no sector of the U.S. capital markets has been left untouched by the changes which have swept through the financial system. Among the Wall Street securities groups the pressures of competition have forced a further realignment of the firms themselves.

The past 12 months has seen three more Wall Street mergers, Lehman with Shearson; American Express, Donaldson, Lufkin and Jenretta with Equitable Life; and the bulk of Becker-Paribas with Merrill Lynch.

The continued processes of consolidation reflects a wide range of factors including the pressures imposed by new ways of doing business on Wall Street — such as the expanded need to put capital at risk as a result of the rule 415 Shelf registration procedure—the desire of most firms to broaden their investment banking business and, in the case of Equitable Life, the continued integration of the U.S. financial services industry.

At the same time, senior management changes have recently taken place et firms like Merrill Lynch, Goldman Sachs and Phibro Salomon. In some Wall Street firms, major reorganisations are under way in order to cut costs and improve profitability in an increasingly competitive market place — a market place where the lines between commercial and investment banking are becoming increasingly blurred.

It is probably too soon to judge whether the new programme is a real success. Most recently the Treasury copied the huge success on Wall Street of certificates representing repackaged zero-coupon government bonds isused by firms like Merrill Lynch and Salomon Brothers as "tigers" and "cats."

Over the past three years the markets have swallowed some $40bn in government paper repackaged in this way. Last month the Treasury launched its own programme formally facilitating the stripping of government paper under a scheme called "strips" which allows for the separate trading of the coupons and principal of designated issuess. In the event, however, the market turned sour ahead of the auction and tha issues were anything but a blinding success.

Despite this, many on Wall Street believe the introduction of the strips programme could still lead to further changes in the products offered by Wall Street and in the composition of investors in the capital markets.

Outside the bond markets the equity market is also undergoing structural and other changes,. Last year the longer-term ettractions and the importance of the U.S. equity markets — despite the lacklustre performance of the Dow Jones and other major indices were highlighted by the string of foreign American Depository Receipts (ADR) offerings in the U.S., including the global Reuters and big British Telecom issues.

In the meantime, the rapid growth of the over-the-counter markets and off-floor trading coupled with other factors like the speed of technological advance and the increased internationalisation of trading are forcing the New York Stock Exchange to reconsider some of its traditional practices.

Among the changes under consideration at the NYSE are an extension of trading hours, link-ups with other exchanges including the Pacific Exchange, and liberalised rules on the classes of stock quoted on the exchange. In addition, the NYSE and other exchanges have already begun introducing electronic trading systems which automate further the trading system.

DEVELOPMENTS IN NEW YORK. PAGE 12

The range of products offered by the New York and other exchanges is also expanding rapidly. In the waka of the success of stock options, exchanges in New York, Chicago, Philadelphia and elsewhere have introduced a wide range of new financial instruments, including financial futures, stock index options and currency options.

Some of these new instruments are among the fastest growing "hot new products." For example, trading in the Chicago Board Option's Exchange's S and P 100 stock index option grew fourfold to 250,000 contracts a day last year.

The recent boom in merger activity and leveraged buy-outs has belped hasten the attack on the remaining barriers while some commercial banks like Citicorp, with its push into the brokerage business, and Bankers Trust, with its assault on the commercial paper market, have added to the pressure by challenging the remaining rules head-on.

Aside from the continuing structural changes in the U.S. capital markets, competition and innovation have heralded a wide range of new products and services.

Some of these new services, such as complex interest rate swaps, are designed to exploit differences between global capital markets — or individual borrowers access to these markets. About $70bn of interest rates swaps are estimated to be outstanding with $40bn to 50bn of them arranged last year.

In an effort to standardise this booming new market e group of commercial banks and investment banks recently proposed setting up an international interest rate swap industry association.

Meanwhile, the Treasury, burdened with the task of financing the mushrooming $200bn-a-year Federal Budget deficit, has begun creating new classes of securities with a series of steps designed to cut the cost of its funding.

Beginning last year the 30 per cent witholding tax on interest paid to foreign investors on U.S. securities was repealed. In its wake U.S. companies have been able to issue bearer bonds directly from the U.S. rather than through offshore subsidiaries while the Treasury introdnced new "special registered" targeted government issues — sold to foreign investors only—in semi bearer form.

The first "add-on" issue of "special registered" U.S. Treasury notes — e 1bn offering of three-year 11-month notes last October — was very well received with bids totalling $4bn and the average yield some 30 basis point below the equivalent on the U.S. domestic portion of the offering. The Treasury estimate that the special registered offering saved it about $3.2m in annual interest costs.

The traditional commodity exchanges have also begun to adapt to the new order. Among them hte New York Comex has expanded its range of option futures adding options on silver futures most recently while the New York Cotton Exchange plans to trade a U.S. dollar index futures contract and the sugar, coffee and cocoa exchange is waiting approval for a contract based on the consumer price index.

Meanwhile the commercial banks are also pushing aggressively into new markets—both domestically and abroad—while expanding their existing role in established businesses. For example the volume of foreign exchange trading in New York is continuing to grow reaching eround $33bn a day recently. To cope with this substantial increase in volume the major U.S. banks are investing heavily in new dealing rooms—many with the capacity to deal on a 24-hour basis.

Highlighting the growing internationalisation of the markets—and of the institutional funds which flow through them—the Wall Street firms and commercial banks are expanding their presence in key overseas markets. One signal of the likely shape of things to come is the U.S. commercial banks' push into the UK in edvance of the radical reorganisation of the UK markets.

Explosive growth and increasing diversity

Floating-Rate Eurodollar Bonds

MAGGIE URRY

Market Trends in Eurodollar FRNs

	1978	1979	1980	1981	1982	1983	1984†
Number of issues	27	56	48	65	81	60	148
Average basic margin over Libor (basis points)	39	31	24	37	25	16	14
Average maturity (years)	8.7	8.7	8.0	8.5	9.6	10.2	12.4
Average issue size (U.S.$m)	33	37	74	90	129	170	189

† January to November. Source: Merrill Lynch.

THE Eurodollar floating rate note market looks set to continue both an explosive growth rete and an increasing diversity of instruments.

New issue volume doubled in 1984 to $28.5bn, for the first time exceeding the total value of fixed rate Eurodollar bond issues. Already this year a large number of deals have been launched, often at times when the fixed rate market was virtually closed.

FRNs have proved popular investments where protection of capital is required. Because the interest rate is refixed regularly—usually every three or six months—volatile interest rates are not a threat to the bonds' capital value. At each coupon refixing the price of the bonds approximates to par as market rates are used to set the new coupon.

As a result the vast majority of FRNs are bought by banks anxious to lock into assets with a yield higher than, and calculated in the same way as, their cost of funds in the money markets. FRNs have generally had their coupons set in terms of a percentage margin over London Interbank offered rate (Libor), the rate at which the banks obtain their funds.

The banks' need to buy assets such as FRN, where the credit risk is usually good, is increasing as other lending becomes more and more problematical. The demand for this paper has, therefore, been strong enough not only to attract more borrowers to the market, but also to drive down the cost of borrowing until now margins are wafer thin.

Many borrowers have found the FRN market a much cheaper place to borrow than the syndicated credit market and have used FRN issues to repay their loans early. This has added to the banks' demand for floaters by taking other loans off their books.

The process has gone so far now that many major borrowers have repaid older FRN issues early by tapping the market for even cheaper floating rate money as the cost of borrowing has tumbled. The accompanying table shows how the market has expanded, with issue numbers and sizes increasing while the average margin over Libor has fallen.

The average life of issues has increased in recent years, partly as a result of the first issues of perpetual floaters. This trend was started last April by National Westminster Bank when it launched a $500m deal. Since then a number of further issues have been made with no final maturity. The borrower reserves the right to repay the principal early, but the lenders may not have a put option.

This has deterred some investors who necessarily have a shorter time horizon from buying these issues. But the ingenuity of bankers quickly circumvented this problem. Morgan Guaranty devised an issue for Sweden—launched in June last year—where the investor can switch from the undated bonds into a fourth-year floater paying a lower rate of interest. The investor can also switch back into the perpetual issue. This structure, which became known as the "flip flop" option, soon became almost standard on perpetual deals.

Lower margins

The declining margins over Libor available to investors in FRNs—which have fallen to only a few basis points for top quality borrowers—has also required some ingenuity for the banks which structure the deals. A popular format during times when the yield curve is steeply rising is the "mis-match" floater.

This sets the interest rate using a three-monthly or six-monthly benchmark but the level is refixed every month. It allows investors to fund their holdings of FRNs by borrowing in the money markets at the monthly rate.

This would normally result in a mis-matching of the investors' assets and liabilities, which can be very risky if interest rates are volatile. But with the mis-match floater, as long as the whole yield structure moves up and down together, rather than the yield curve changing shape, the danger is averted.

If six-month or three-month rates are much higher than one month rates an investor can pick up more yield than it could by buying standard FRNs. The investor does suffer the compounding effect of borrowing monthly though. The danger arises if the yield curve flattens or even changes to slope downwards so that one-month money is more expensive than three or six-month funds.

The borrower benefits by being able to borrow yet more cheaply, with the best credits able to fund below Libor. These fine borrowing costs are still related to the banking benchmarks though, and some borrowers particularly sovereign and supranational names have become better credit risks than even the best banks.

As a result there have been a few recent floating rate issues where coupons are set at a margin over U.S. Treasury bills. Treasury bill rate reflecting the credit standing of the U.S. is generally well below Libor—making funding even cheaper for borrowers. However there is a much more limited pool of investors in such issues.

There is a limit to the amount that banks can lend at a yield lower than their own marginal cost of money.

The T Bill based issues are expected to appeal mainly to investors who normally buy T Bills themselves, such as central banks, investment institutions and cash-rich companies. Such is the investment bankers skill in developing and refining new concepts that a recent issue for Swedish Export Credit, led by Merrill Lynch, adopted both the T Bill pricing and the mis-match formula.

Floaters have even been auctioned to investors in a manner similar to the U.S. Treasury's regular bond auctions. Last October and November Morgan Guaranty sold two issues for Sweden, totalling $1.2bn through a tender sale, with a resulting very low borrowing cost for that country.

While banks remain the typical buyers of FRNs, with the asset-hungry Japanese banks the most significant force in the market, they are also major borrowers. In that sense the FRN market supplements the normal interbank money market and banks establish a credit line for the borrower before buying an FRN.

Sovereign names are the other major category of borrowers in the market, with combined bank and sovereign issues making up between 80 and 90 per cent of the total amount raised. Trends in the floater market may not continue unchecked. But with the exchange rate a less important consideration for investors—who will continue to do business in dollars—and the volatility of interest rates the market's raison d'être, any threat to the market's continued growth must came from changes in the major players' ways of doing business and their credit standing.

Expansion of product range

Futures

ALEXANDER NICOLL

MANY PROFESSIONAL portfolio managers may still be nervous of taking the plunge into financial futures. While they hold back, the burgeoning options market is offering a bewildering new range of tools both to them and to corporate treasurers.

Trading in financial futures on the dominant U.S. exchanges has grown rapidy at the expense of traditional commodity contracts. The markets have tended to be used mostly, however, by major financial institutions, such as the big commercial and investment banks, who use futures as e hedge against their hnge position-taking in cash markets.

U.S. Treasury bond, Eurodollar and stock index futures have fuelled recent expansion in Chicago, while in Britain the London International Financial Futures Exchange has seen steady volume growth in its U.S. Treasury bond, Eurodollar, UK gilt-edged and three-month sterling contracts.

To some extent, economic developments of the past few years have reduced the need which originally drove investors into futures markets. Inflation has dropped and the dollar has been strong, so the need to protect the valne of many holdings has diminished.

Extraordinary volatility has persisted, however, in interest rates as well as in short-term currency movements. This explains the growing popularity of "derivative" financial produets—futures, options, swaps and others.

The return to favour of equities over the past few years has also prompted the growth of index futures enabling investors to protect themselves from a sudden decline or to enhance profits from a market upturn.

The disappearance of a number of futures brokers last year highlights one of the markets' major problems: although the big contracts are extremely liquid, they are dominated by big institutional users and by Chicago "locals," individuals who trade on their own account.

The average money manager, whether fund managers or company treasurer, remains either uneducated or unconvinced about the advantages of futures.

To counter this problem, a small group of market participants and portfolio managers in London have recently got together to form the Options & Futures Society, a "user group" designed to foster both understanding or, and debate about, the markets.

Though London-based, the society is intended to be international and has the endorsement of U.S. exchanges as well as of the London Stock Exchange, Liffe and the International Commodities Clearing House.

Mr Nic Stuchfield, a partner in stockjobbers Wedd Durlacher Mordaunt, says the placing of options ahead of futures in the society'a name was simply to get e better acronym (TOFS), but there is no doubt thet the greatest hope for arousing more interest in the markets lies in options.

Last year, volume in options on Treasury bond futures contracts rose to 6.6m on the Chicago Board of Trade, four timse the business done in 1983 and 56 times 1982 volume. (An option confers the roght, but not the obligation, to buy or sell the underlying item, be it a futures contract, an equity, or something else, at some point in the future.)

Again, options on futures contracts may appeal most to the same big institutions who are active in the cash U.S. government boud market and T-bond futures.

But they can also offer a cheap hedge against interest rate movements in general—the price paid for an option is the limit of the buyer'e potential loss, whereas the potential for loss through incautious use of futures is much larger.

Options have also been developed on stock index futures, though these have yet to command a big market.

At the same time, the traded equity options market in London, which has been struggling for years to win greater attention, has taken off in the past few months following the introduction of successful options on British Telecom and Jaguar Shares. London also has its own stock index future, Liffe's FT-SE 100 index.

Of more appeal to corporate treasurers as opposed to professional investors are currency options, traded on the Philadelphia Stock Exchange and also offered on a custom-made basis by leading international banks.

Companies can use options—or futures, or a combination of both—to minimise the risk from currency exposure arising out of specific transactions and contrects. The growing Philadelphia market offers the advantage of tradeability and market-set, visible pricing.

But contracts are nautrally in specic amounts and for fairly short periods which may not precisely conform with an individual company's needs.

Tailor made

Banks, therefore, write options on th so-called over-the-counter market, in which options are tailor-made for customer requirements but cannot be traded or, probably, efficiently priced. They have been attemping to standardise options trade so that they are not forced to ofset their own options risks on the U.S. exchanges.

This could eventually form parrt of growing options trade in London, where there is hot competition to develop new options products between Liffe and the Stock Exchange.

Greater futures and options volume in London should be aided not only by more education and marketing, but also by tougher investor protecton which should result from changes in the City's structure.

Market participants have formed the Association of Futures Brokers an dDealers, which is now getting under way and is expected to have broad powers.

There is no doubt that the range of products on offer will continue to expand quickly. major market for which there is no precise hedge is Eurobonds, hedged through the U.S. T-bond market. Liffe has tried to come up with e Eurobond futures contract, but the diversity of Eurobonds has so far made it impracticable.

هكذا من الأصل

Reinforcing securitisation trend

Euronotes

PETER MONTAGNON

LITTLE has dona more to transform the face of the Euromarkets over the past year than the suddan and explosive growth of a new form of borrowing technique—the Euronote issuance facility.

According to the banking magazine Euromoney, funds raised by this new medium jumped to US$17.4bn last year from only $3.5bn in 1983. And in the first month of 1985 business continued apace, with the launch of new facilities totalling no less than $3.3bn.

For top-rated borrowers such as Sweden and the Swiss food giant Nestle, and even for soma less-favoured names such as the Korea Exchange Bank, the new technique has opened the door to borrowing at costs close to or even below bank deposit rates. This would have been undreamt of just a couple of years ago.

For the market as a whole the growth in Euronote business bas reinforced the trend towards what nrofessionals call the securitisation of international debt. This means the issue of debt can be traded among investors like a bond, rather than be left to moulder on the balance sheet of one single bank until maturity.

But despite their rapid rise to fame Euronote issuance facilities are still the subject of intense emotional debate within the banking community. Part of the reason for this is that the market is still very much in its formative stage.

This has led to a welter of variations in the way in which the mechanism is structured and that in turn has made it all tha harder to understand and evaluate.

In the background are frequently expressed fears of big commercial banks that the new mechanism could squeeze them out of the international loan business, much as the growth of the commercial paper market in the U.S. has deprived banks there of the chance of doing loan business with top-rated corporate customers.

The principle on which the Euronote market operates is now, however, perfecfly clear. It involves an ingenious reallocation of roles within the international capital market, the effect of which is to allow borrowers to raise what is effectively medium-term, say five or seven year, money at the very low rates available only in the short-term money markets, where maturities rarely exceed three or six months.

A borrower who raises money in the Euronote market doea so by the issue of short-term notes that are negotiable like certificates of deposit and can supposedly be placed with non-bank investors such as central banks and corporate treasurers.

As one issue of notes matures after three or six months he issues some more so that while the holders of the debt change over time tha total outstanding in the market can be maintained in the medium term.

But such a borrower also needs to be sure that he will always be able to find buyers for his notes in the marketplace. If he could not do so he might find he bad to pay down his debt earlier than expected. For that purpose a Euronote facility is normally backed up or underwritten by a group of commercial banks which stand ready to buy the paper at a specified price or to provide credit in a period when the appetite of short-term investors wanes.

The traditional function of commercial banks, which was to lend money over the medium term, has thus heen split in two. Instead of lending money, commercial banks simply commit their resources to guaranteeing that it will be available over the medium-term. The actual funds are provided elsewhere in the market, theoretically from non-bank investors looking for a short-term home for their surplus cash.

Within this basic structure, however, controversy still rages about how Euronote facilities should work in detail. Above all this relates to the way in which the notes should actually be placed in the market.

Merrill Lynch, the U.S. investment bank, which has been one of the main pioneers of the new facility, argued from the outset that it, as lead manager or arranger, should have the sole right to place the paper in tha market.

The advantage was that one house with an established position in the short-term securities market would be able to keep better control of an issue, secure a fair price for the borrower and preserve a smooth secondary market in the paper.

But this approach alienated potential underwriters who saw that Merrill was abla to cream off additional profit in the securities market while all they were offered was a relatively paltry annual fee—it now stands typically at 10 basis points—for backing up the facility.

The emphasis thus switched to a tender panel system whereby borrowers formed a group of banks willing to bid for the notes each time they were issued.

The object was to broaden the distribution of the paper, obtain a more competitive price for the borrower and allow underwriters a stab at tha placing business from which they could earn profits to add to their participation fees.

The problem with this system as it turned out is that tender panels could still be dominated by strong investment banks which would outbid weaker members, scoop up all the paper and thus still deprive many participants of the chance to earn placement profits.

Some therefore began to demand what is called in the trade "protection," which means that they would be guaranteed a certain amount of paper at a specified price at each auction of notes.

The chances of making additional profit on the sale of such paper may help attract more banks into note facilities as underwriters, but it can distort the secondary market price of the paper if these banks find it hard to place and dump it in the market.

All this has led to a plethora of different types of facility as lead managers seek to perfect the ultimate Euronote deal. To secure its place in the history books each one tends to ba identified by its own acronym, so that the market has been assaulted by a battery of GUNS, SNIFS, RUFS, NIFS and even BONUS's.

For most ordinary bankers that list is just about as confusing as it sounds. What many argue is now needed is some form of standardisation so that it will again be possibla to differentiate clearly between individual credit risks in the market.

Without that it is very difficult for would-be participants to assess either the risk or the reward of the business they are entering into.

One step which would help in this respect would be the rating of Euronotes in the same way as commercial paper is rated in the U.S.

Standard and Poor's, the U.S. rating agency, has said it plans to devise such ratings, but so far it has not done so. If it did, at least it would be easier to gauge the right trading level for different types of note in the secondary market.

That might encourage more non-bank investors to enter the market. For one drawback to the Euronote market that has not so far been overcome is that most of the notes still end up being placed with other banks rather than the range of investors to which they are targetted.

Moreover, only about $5bn in notes has been issued out of an outstanding potential volume of some $35bn. A broader investor base is needed for the market to mature.

Separately another threat looms over the market in the form of possible regulation by central banks which have looked askance at its development.

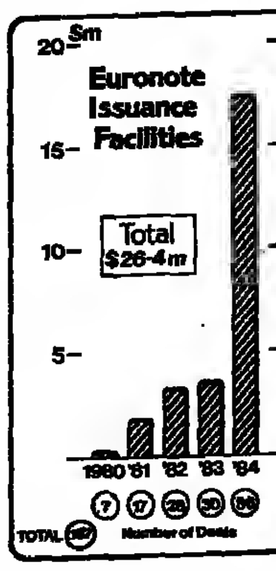
Many place restrictions on the issue of note facilities in their own currencies with the result that the dollar and the uncontrolled ECU (European Currency Unit) remain two of the very few currencies in which Euronote facilities can be arranged.

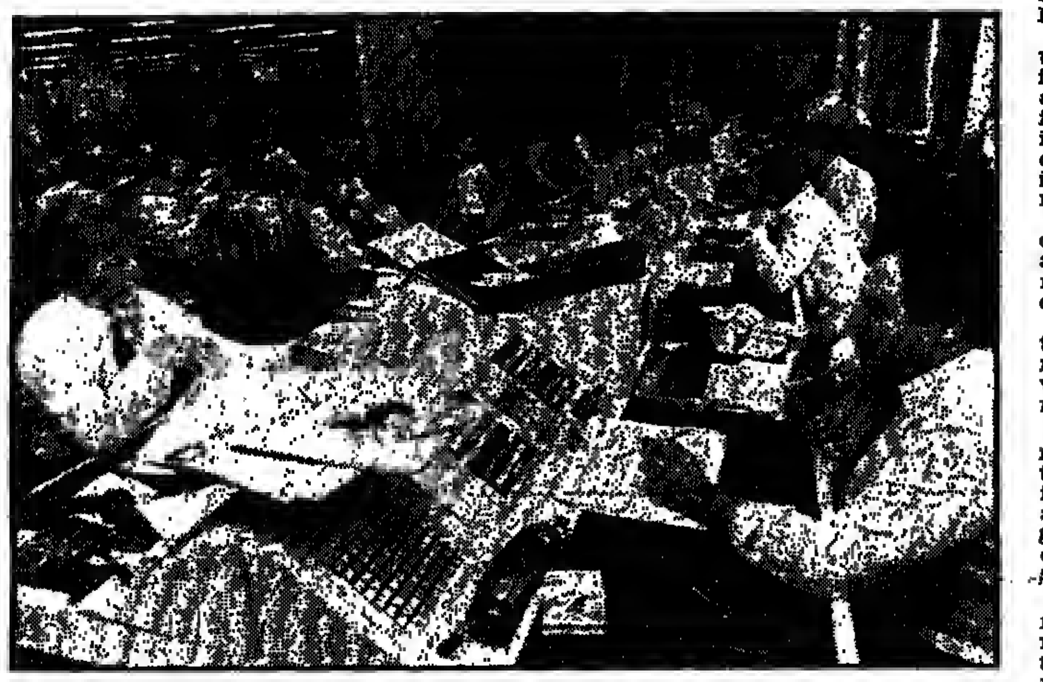
What worries the central banks most is that underwriting banks are now carrying huge contingent commitments to provide money if the note sales fail. But they do not necessarily have adequate capital backing. It is precisely because the banks could be called upon to exercise their underwriting commitment at a time of world financial crisis that capital requirements are regarded as so important.

The Bank of England, Federal Reserve and other central banks are therefore looking at ways in which banks could be made to protect themselves against this, by the imposition of capital ratios to Euronote business.

When and if it happens that would have the effect of pushing up the commitment fees charged by banks for their underwriting role. Some borrowers might be squeezed out of the market altogether because it would again become economic for them to raise money in the Eurocredit market and, at the very least, the larger fees would make it easier to differentiate between risks.

But few bankers now believe that even tough regulation would kill the Euronote market. It has come too far over the past year for that, even if it still has a long way to go to reach maturity.





The dealing room at Merrill Lynch

Decline to a role of speciality product

Syndicated Loans

PETER MONTAGNON

ACCORDING to Morgan Guaranty Trust, the U.S. bank, the volume of new business in the syndicated loan market jumped from only U.S.$74.2bn in 1983 to $106.3bn last year.

That should have left bankers crowing with satisfaction about another boom year. Instead, they have rarely been more gloomy about the future of international bank lending. For the truth is that the figures distort the actual trend in market activity. As far as traditional syndicated loans are concerned volume appears to be stagnating or falling.

Indeed, the syndicated credit, which was once the main vehicle for large scale international borrowing and lending, now seems to have taken on the role of a speciality product for a market in which other instruments such as floating rate notes and the new-fangled Euronote facilities have come rapidly to the fore.

If volume did grow last year this was largely because in the early months of 1984 several exceptionally large credits were arranged in connection with oil company takeovers in the U.S. That was clearly a chance occurrence. It speaks more of the oil industry and the U.S. equity market than state of the credit market itself.

For top-rated borrowers in Europe, syndicated loans have lost much of their appeal because they are more expensive than new forms of borrowing. They are also less flexible, particularly compared with Euronotes which allow a borrower to draw just as much cash as he needs at any one time.

At the other end of the credit spectrum the market is still hampered by the loss of creditworthiness of former large customers in Latin America. These could once be relied on to take tens of billions of dollars in new loans each year.

As a result the syndicated loan is an instrument that has generally retained its relevance only for a rather narrow band of intermediate credit risks which still have appeal to bank lenders but not necessarily qualify for bond market finance.

Some of these borrowers have also taken a deliberate policy decision not to avail themselves of cheap Euronote facilities. East European names are a case in point—they are apparently worried that to rely heavily on borrowing from the short-term money market would conflict with their existing trade finance arrangements, and make them vulnerable to sudden shifts in the political and economic climate.

East European borrowers, notably the Soviet Union and East Germany, have thus become fairly heavy takers of funds in the Eurocredit market. And they have found their deals easy to place with banks struggling in vain to find suitable lending opportunities elsewhere.

Even U.S. banks have swallowed their pride and overcome their deeply ingrained reserve about lending to Comecon since the Polish debt crisis and the Soviet invasion of Afghanistan. They piled into a recent $150m credit for East Germany which was quickly doubled to $300m, and is slated for a further large increase to perhaps $400m or more.

Competition for such business is, however, so hot that margins have come under severe downward pressure. A recent ECU50m loan for the Soviet Union (put together without the participation of U.S. banks) was more than twice oversubscribed, despite a pricing structure which saw the margin starting at just ⅛ per cent over London interbank deposit rates.

The syndicated loan is an instrument that has generally retained its relevance only for a rather narrow band of intermediate credit risks.

Other borrowers which also still feature in the syndicated loan market are those which have traditionally been regarded as second tier risks such as North African countries, some borrowers in Southern Europe and South Korea, the most heavily indebted nation in the Far East.

Even some of these countries have diversified their borrowing programme into new instruments.

Spain is tapping the U.S. commercial paper market, while Korea Exchange Bank and the Republic of Portugal have arranged Euronote facilities. Others such as Thailand, Malaysia and Greece are also turning increasingly to the floating rate note market to cover a significant part of their needs.

But what has turned out to be particularly galling for bank lenders has been the way in which the availability of cheaper forms of credit has encouraged many borrowers to repay their existing debt and replace it with lower cost borrowing.

Last year Sweden and Denmark both started to do this in a systematic fashion. Other countries which have also been renegotiating previous deals include Ireland, Italy, Belgium, France and Canada, while late last year Finland decided simply to cancel all its $1.5bn in outstanding standby credit lines from commercial banks.

In the process banks are finding that older loans either disappear from their books or have been replaced with new loans bearing much lower margins than before. That has put earnings from syndicated loan business under pressure and many banks are reorganising their capital markets activities as a result.

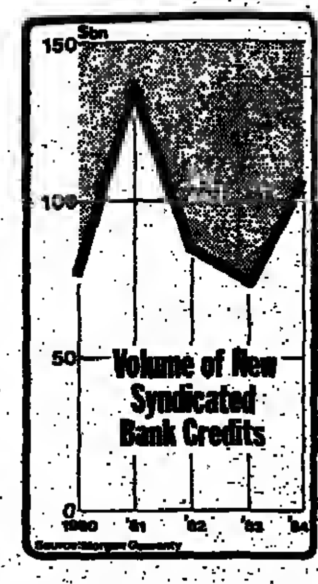
Nowadays it is less common to find a syndicated loan department as a separate part of a major international bank and more common to find syndicated loan specialists operating as part of an integrated capital markets team offering a wide range of products.

This is an important structural change. It means that lenders are adapting to an era in which the syndicated loan no longer holds sway. As a result there is less chance that syndicated lending will ever regain its once coveted prominence in the capital markets.

That could happen if a strong recovery in loan demand could not be met elsewhere, or, for example, if central banks decided to impose such draconian regulations on the Euronote market that it was no longer cost-effective.

For the time being the former possibility looks remote. As for the latter, central banks are looking at the Euronote market but are being remarkably slow to move.

At the moment, therefore, no one is betting on a recovery in the syndicated loan market, for this year at least.



Wonderful winning ways

Interest Swaps

ALEXANDER NICOLL

SWAPS, one of the fastest growing sectors of international credit markets for the past two years, have been described by one of the market's major players as "that wonderful invention where everyone wins."

Attempting to explain en extremely complex and fluid business in simple terms, swaps practitioners offer many catchphrases to encapsulate what their market does. But essentially it allows a borrower, after raising funds in a market it can easily tap, to pay interest on that borrowing in whatever currency and whatever rate regimen it wishes. It can adjust debt servicing methods to suit his needs.

Thanks to the muscle of a few major participants, swaps have shown phenomenal growth. One leading player's estimate is that swaps covering U.S.$150bn of debt principal were arranged last year, perhaps seven times 1983's total.

Such estimates are little more than conjecture, however, and could include e substantial amount of double counting since, in any transaction, there must obviously be at least two parties.

After such explosive growth, the signs are that maturity is fast arriving. Expansion has levelled off in the early part of 1985, with severe imbalances being exposed in basic supply and demand. Furthermore — always a sign of maturity — the regulators are showing interest.

Although Swaps, by their nature, involve two or more parties, they are perhaps best approached from the point of view of the individual borrower.

A typical but notional set of circumstances: XYZ Corp, an industrial company, wants to raise $100m end to pay a fixed interest rate. If it was to issue a straight Eurobond, it would probably have to pay a coupon of about 15 per cent. It views this as prohibitive, and instead borrows from its banks at 1½ per cent over Libor.

To obtain a fixed rate on this borrowing, it contracts with a swap intermediating bank, Swap Bank, to pay 12½ per cent to Swap Bank for the length of the borrowing and to receive in exchange Libor. The Libor elements that it is receiving from Swap Bank and paying to its creditors cancel each other out: So XYZ is left with fixed costs of 12½ per cent being paid to Swap Bank and the 1¼ per cent spread over Libor being paid to its creditors.

The total of 13¾ per cent is less than the 15 per cent which it would have had to pay on a conventional fixed rate bond issue.

Meanwhile, Swap Bank is also signing a contract with a counterparty. AAA Bank. AAA could borrow on the interbank market at or just above Libor, but wants to gat cheaper funds. Because it is a prime borrower, it can obtain tha finest terms available on the dollar Eurobond market.

Fixed rate

AAA Bank therefore issues a $100m straight Eurobond with a coupon of 11¾ per cent. Under its separate contract with Swap Bank AAA pays Libor to Swap Bank, and gets a fixed rate of 12 per cent in return. The fixed rate payments are used to service the Eurobond, and also provide a surplus of ¼ per cent.

Since AAA is paying Libor to Swap Bank, its cost of funds is therefore Libor minus ¼ per cent—a saving of ¼ per cent or slightly more.

Both counterparties have therefore reduced their interest costs at existing rate levels, and for the longer term have established a rate structure more suited to them: industrial companies, fearing interest rate rises, may wish to lock in to fixed rate payments. Banks prefer to pay floating rates to match their lending rate structure.

In the middle, Swap Bank passes AAA's Libor payments to XYZ. In the other direction, it receives 12½ per cent from XYZ and passes 12 per cent to AAA—taking a 25 basis point spread itself.

Swaps need not always be between fixed end floating rate dollar payments. They may be between ona floating rate regimen (Libor-based) and another (U.S. prime-based), and in particular they may be between currencies—indeed, it was the pioneering use of currency swaps by major borrowers such as the World Bank which first provided momentum to the swap market.

The World Bank has heen one of tha biggest participants, converting from dollar interest to currencies with lower rate levels such as Swiss francs. The Student Loan Marketing Association has also been important, converting from fixed to floating dollar rates.

The need to tailor-make swaps to meet individual needs of customers, and to match them with a range of counter-parties, has tended to foster the prominence of a few major intermediaries.

These have been Citicorp, Morgan Guaranty and Bankers Trust among commercial banks, and Salomon Brothers and First Boston among investment banks. There is also a range of second-tier participants in New York and London, including most of the top U.S. commercial banks, some of the leading investment banks, and London merchant banks such as Kleinwort Benson and J. Henry Schroder Wagg.

Tha biggest nsers of the market have been banks on the one hand and U.S. companies on the other. The latter bave been encouraged to lock into fixed rates by the extreme volatility of interest rates in recent years, but demand from them is obviously determined to some extent by expectations for interest rates.

If they think rates are going to fall, they are less inclined to lock in now to what might be an expensive fixed rate.

Indeed, the signs now are that demand from banks wishing to obtain cheap floating rates fsr exceeds that from customers seeking to switch to fixed rates. This is hampering the market's growth.

There have as yet been no publicised defaults on a swap contract — which is separate from the loan or bond agreement. In the above example, if XYZ Corp — heing the worse credit risk — were to default, it would stop paying 12½ per cent to Swap Bank, which in turn would stop peying Libor to XYZ.

Concern expressed

Swap Bank is then exposed to its contract with AAA Bank, which it must continue to honour. It can cover itself in various markets. For example, it can borrow floating rate dollars—which will then be serviced by the Libor payments coming from AAA, and use the borrowed dollars to buy fixed rate instruments, the interest on which will go towards its 12 per cent payments to AAA.

The risk here is that fixed rates at the tima of the default may have moved considerably from fixed rates at the time the swap contract was executed.

U.S. banks are considering to what extent they should disclose their swap exposure, and U.S. regulatory agencies are considering to what extent l/inks should be required to disclose. Officials of the Federal Reserve and other agencies have already expressed concern.

A different concern has arisen out of the differing prespectives of the major market participants. Investment banks, keen that swaps should become fully tradable items because they do not want to hold them on their books for a long period, have been discussing with commercial banks the establishment of standardised documentation.

Meanwhile, some have been requiring collateral and taking other measures to protect themselves. An active secondary market, and complexities such as options on swap contracts, are developing apace.

Is Libor dead? On this and the facing page leading borrowers and bankers assess the future for this benchmark rate.

It's just a question of protection against risk

AMONG THE great discoveries of nature and insights into the secrets of life, Libor (the London Interbank Offered Rate) doubtless will be fondly remembered—particularly by investment and commercial bankers. The use of Libor as the virtual universal benchmark for the pricing of dollar-denominated interest rate sensitive debt outside the U.S. was inevitable and understandable. It satisfied almost everyone. The reasons for its success are transparent.

The fact is Libor-based lending permitted commercial banks to relax—not to worry about credit distinctions or mismatches between funding costs and return on assets. Banks were not about to fall into the trap of taking on interest rate sensitive liabilities while deploying them on fixed rate loans. And, if in some countries home owners were as yet unwilling to take on the volatility of floating or adjustable rate mortgages, there was no shortage of sovereign governments prepared to do just that.

From the borrowers perspective, Libor-based instruments were described as "long term." "Long Term" became synonymous with certainty. Again, there was little concern with volatility, although as matters later developed the uncertainty of the cost of servicing may have been an appropriate price to pay as compared to the certainty of the perpetual nature of the maturity. But that is another story.

Libor had other attractions. It did not discriminate between not-so-hot banks, careful banks or aggressive banks. The funding costs of banks, except in a few isolated situations, did not distinguish fully the better capitalised or more cautious banks from their less-endowed competitors.

Libor did not penalise, generally, banks on the basis of the quality of their assets or the rate of return on those assets. It was and is a sort of lowest common denominator pricing. Not exactly a comfortable benchmark for the highest credit standing issuers in the world.

Similarly, the spreads paid by issuers or debtors "over" or "under" Libor seemed driven, at any given time, primarily by a desire for market share, the slope of the yield curve, the proliferation of offices in London, the extent of consumer loan demand back home, and more generally the capacity of the lead manager to exercise discipline over its co-underwriters and thereby diffuse risk.

There was hardly any room to distinguish, on the basis of spreads, India from China from Korea from Mexico from France from Sweden. The credit standing of the insurer got lost in the rounding.

Everyone used it: banks; issuers; debtors; rich countries; poor countries; traders and arbitrageurs. Clearly, if the largest and best of the brightest banks in the world lent money to each other at Libor, should not that rate provide the base for Sweden and France and the World Bank?

Libor also proved wonderfully unstable against the U.S. Treasury Bill, unpredictably ratcheting up rates for all banks when any one bank (or country) had publicised problems. Not unexpectedly, the volatility created the opportunity even the necessity, for hedging, arbitrage, swaps—a process still continuing.

Libor also provided a cost benchmark for pricing loans based on the marginally highest cost of funds—a particularly useful characteristic for banks with a diversified source of funding—even more so if they were a natural dollar-based deposit-taking institution. That aspect, however, did not help issuers.

Perhaps most relevant, Libor pricing did not require an external customer base. The ultimate investor could just as well be the under-writing bank.

For the World Bank, all this was a puzzlement. We had come but lately onto the scene, borrowing for the first time in 1982 through interest rate sensitive instruments in the U.S. domestic short-term market—and even then by means of day-to-day pricing strictly based on the prevailing yields for short-dated U.S. government obligations and typically at 10-15 basis points over the yield for those instruments.

Over the last 30 years, our fixed rate bonds were consistently priced on the basis of the yield on fixed rate government obligations. We were accustomed to depositing our liquidity in commercial banks particularly when Libor escalated to 300-400 basis points over U.S. Treasury Bills.

The idea that the World Bank should price its bonds on the basis of those rates was anamolous at best and innovative to say the least. The development expected and fair, which brought Libor-based instruments to the U.S. simply provided a successful test of the quality of the World Bank credit.

The very success and the reasons for Libor acceptance increased our anxiety about its wisdom for us. We had the luxury of waiting. The first T-Bill FRN in Europe was brought to market with the World Bank name by Bankers Trust. Only a partial success—but, nonetheless, it represented an attempt by reasonable and motivated bankers to test the market outside the banking system—in a favourable environment when Libor-Bill spreads were quite narrow.

Later First Boston, then Solomon Brothers, again, this time in the U.S. domestic market found a niche—customers who wanted a high quality credit other than a commercial bank—which would provide a return over T-Bills. Someone, we concluded, must be purchasing Treasury Bills. After all, there are $325bn outstanding with a maturity six months or less. Central banks, clearly were and are not the only non-U.S. holders.

Morgan Guaranty then restructured the "traditional" T-Bill-based issue by creating an instrument which provided (a) immediate liquidity, (b) a take-out at Par, (c) a return higher than the three month T-Bill, (d) an assurance of funding for a reasonable time for the Bank. Investors therefore had choices—points, secondary market liquidity, and/or protection against capital loss. Five hundred million dollars. A diversified customer base—institutional and corporate.

The prospects remain bright. After all if it is mainly the open-ended risk of the T-Bill Libor spread going beserk, one would think there might be ways to hedge that risk, lock in spreads, and protect oneself. The thought occurs, if one were to fix the spread to say 25 per cent of the difference between T-Bill and Libor and guarantee a minimum decent spread over the T-Bill, what would an issuer (or underwriter) do and for how much to protect against an escalation of rates?

I suspect someone will work it out. After all, there's nothing "wrong" with Libor. It's just a question of protection against risk. Like carrying an umbrella.

Eugene H. Rotberg

Eugene H. Rotberg, Vice-President and Treasurer of the International Bank for Reconstruction and Development

Not necessarily appropriate basis for one-in-one lending

SWEDEN'S borrowings at floating interest rates were originally done in the syndicated credit market and it was natural that these credits were priced off a cost-of-funds-related base rate, such as Libor.

It is, however, important to recognise that Libor can vary as between groups and classes of banks. This tiering can also vary over time.

Normally this means that a Libor-related rate would provide a higher effective return, in relation to cost of funds, to the largest, more creditworthy and dollar-based banks than to the smaller, peripheral or non-dollar-based banks.

This would suggest that large, widely-syndicated international bank credits will continue to be Libor-based, but also that the leading banks should pay more attention to the distribution of fees so as to achieve a more equitable treatment of the majority of banks in the syndicate. Otherwise the market for broad syndication might continue to shrink, to the detriment of banks and borrowers alike.

This also means that Libor is not necessarily the appropriate basis for one-in-one lending by the large dollar-based banks for which Libor is not relevant as a measure of their cost of funds.

This diversification, designed to come closer to the banks' cost of funds, has already taken place in the U.S., where pricing in relation to the CD (Certificate of Deposit) rate has become more usual and is replacing the use of the prime rale as a reference rate.

The floating rete note (FRN) market developed initially as an extension of the credit market and, when banks were the principal investors, it was natural that Libor became the principal reference rate. However, as the investor base widened away from commercial banks and to the extent that FRNs develop into highly traded and liquid instruments, the argument for Libor as a base rate quickly erodes. This has been shown by the increasing use of Limean and Libid as reference rates in this market.

For instruments that are primarily designed for non-bank investors, Libor should be irrelevant as a reference rate, unless commercial banks are regarded as "investors of last resort." The latter role can, however, be better performed through various back-stop facilities.

FRNs that are widely traded and thus have a high degree of liquidity and, even more so, short-term Euronotes should be priced on the basis of alternative investment vehicles.

These might be Treasury bills, commercial papers, bankers' acceptances, CDs, etc. The notional base rate should be the rate for the least risky and most liquid instrument, which is usually the Treasury bill.

As AAA-rated paper by sovereign borrowers obviously represents a higher quality paper than bank CDs, the former should carry a lower interest rate than the latter. Since the CD rate is normally below Libor, this also means that there is no reason to use Libor as a reference rate.

As the Euronote market develops further into a parallel with the commercial paper market in the U.S., it is likely that the rate structure will develop more fully based on credit risk, in which case Libor will become of reduced significance. As such instruments will appeal to the treasuries of corporations, institutions, commercial banks and to central banks, they will develop their own rate structure without reference to Libor.

In this area the dollar markets are likely to lead, but the same fundamental argument holds for other currencies. That development is, however, hampered in those countries where the authorities do not permit foreign borrowers in the short markets. Such restrictive policies will continue to preserve the domestic banks' ability to maintain artificially high lending rates.

Peter Engstrom

Peter Engstrom, Director of the Swedish National Debt Office

هكذا من الأصل

International Capital Markets 11

Alan Moore, Group Treasurer of Lloyds Bank

Use for loans on the balance sheet should be assured

THE DEVELOPMENT of Libor (London Interbank Offered Rate) as a pricing mechanism, coupled with the concept of rollover lending, facilitated the major role played by banks as international financial intermediaries over the past fifteen years.

The roll-over loan technique meant that the medium-term loans needed by borrowers could be funded by banks from shorter-term deposits without interest risk. The Libor pricing mechanism meant that many banks without established customer deposits in U.S. dollars, especially new ones, that joined the market could be reasonably sure of obtaining funds from the interbank market at the reference rate and thus earn the risk margin attributed to the loan.

Libor will undoubtedly remain a necessary basis for loans to borrowers whose paper would not be marketable to investors and wherever a wide degree of syndication to second and third tier banks is involved.

Libor's universal use was briefly challenged by "U.S. Prime Rate" when that country's regional banks entered the market and borrowers were attracted by nominally tiny margins over Prime. However, Prime Rate is not itself a cost of funds and borrowers soon came to realise the inbuilt additional profit margin—the formula lacked the apparent "equity" of Libor.

In 1984 Libor faced competition from inherently cheaper variants of the same formula, such as Limean and Libid and even non-related reference rates such as U.S. bankers acceptances or Treasury bills.

A parallel development was that facilities using the lower variants of Libor were often in the form of negotiable paper intended not to stay on banks' balance sheets but to be sold to investors.

Investors who placed deposits with banks generally preferred to use only prime names who would have paid Libid for a deposit and rather less than that if the investor required a negotiable Certificate of Deposit (CD).

Investors can therefore regard negotiable instruments issued by first class borrowers as attractive if they offer a better rate than bank CDs. Hence the ability of investment bankers to promote and sell issues based rate than bank CDs.

It cannot be said that banks in general view this development with favour but the market place is a dynamic one and must reflect competitive forces.

Libor will undoubtedly remain a necessary basis for loans to borrowers whose paper would not be marketable to investors and wherever a wide degree of syndication to second and third tier banks is involved.

Such banks do not have access to primary deposits on the finest terms and to them Libor certainly reflects the cost of funds.

Prime banks may find that investors who previously bought their CDs, at ⅛ per cent per annum under Libid—effectively ¼ per cent per annum under Libor—now buy borrowers paper instead. The cost of funding in the Eurocurrency market even to prime banks may thereby increase, pushing them to regard any pricing formula other than Libor with deep misgiving, although occasionally justified if alternative sources of funds such as U.S. commercial paper can be utilised.

By far the greater proportion of Eurocurrency loans will, however, continue to be financed out of the wholesale interbank market.

The current spate of issues based on less than Libor may abate as investors become saturated with borrowers paper and more of it returns to the secondary market. While Libid may be an adequate and feasible basis for negotiable paper, the future of Libor as a basis for banking loans that stay on balance sheets should be assured.

If a healthy, broad participation in syndicated lending is to be maintained the pricing formula must reflect the cost of funds to a wide range of banks. Not to do so will eventually be counterproductive as the activity will be seen as insufficiently profitable.

Alan Moore

Too soon to be written off as an important benchmark

THERE is an active debate in the capital market. Will Libor (the London Interbank Offered Rate) continue as the respected benchmark for the pricing of floating rate securities and loans? Historically banks borrowed at the Libid rate (⅛ per cent below Libor) and made commercial loans at a margin or "spread" over Libor to generate a lending profit.

Increasingly during 1984 and 1985 the margin over Libor paid by borrowers has come under pressure:

- In the floating rate note market the margins that prime borrowers have been paying have reduced dramatically. In 1984, for example, the Republic of Italy halved its borrowing spread against Libor between August and October. Even more remarkably, Credit Lyonnais' cost over Libor for 12-year financing dropped from 0.24 per cent in May 1984 to 0.15 per cent in September. Today the spread would be less than 0.10 per cent.
- At the same time there has been an explosion of short term note issuance facilities which have translated the pricing available on short-term money instruments to the medium-term floating rate loan market.

Not only have margins come under pressure but the Libor benchmark itself has been challenged. Several borrowers have attempted to introduce new pricing formulas to provide sub-Libor pricing. The World Bank (twice) and Swedish Export-credit (once) have offered Euro investors floating rate notes linked to the Treasury Bill rate. But none of these offerings have appealed to traditional floating rate note investors.

It is not surprising that issuers are contemplating the demise of Libor. It is in their interest to push the market that way.

From the investor's viewpoint the argument is very different.

If the market for floating rate instruments was simply pools of capital looking to achieve a floating return then there would be strong arguments for the decrease in the importance of Libor.

The internationalisation of capital markets has given investors access to a wide range of floating rate instruments—U.S. Treasury bills, U.S. domestic bill floaters, commercial paper, bankers' acceptances. As portfolios diversify they will be willing to accept returns below Libor if they are still higher than other benchmarks available in the U.S. market.

Unfortunately for the issuers, the market for floating rate instruments is still largely a banking market where purchases are made on the basis of a spread, i.e. the difference between the margin on the floating rate instruments and the bank's funding cost. The only argument then for the demise of Libor is that a bank's funding cost is no longer Libid but at some level below this.

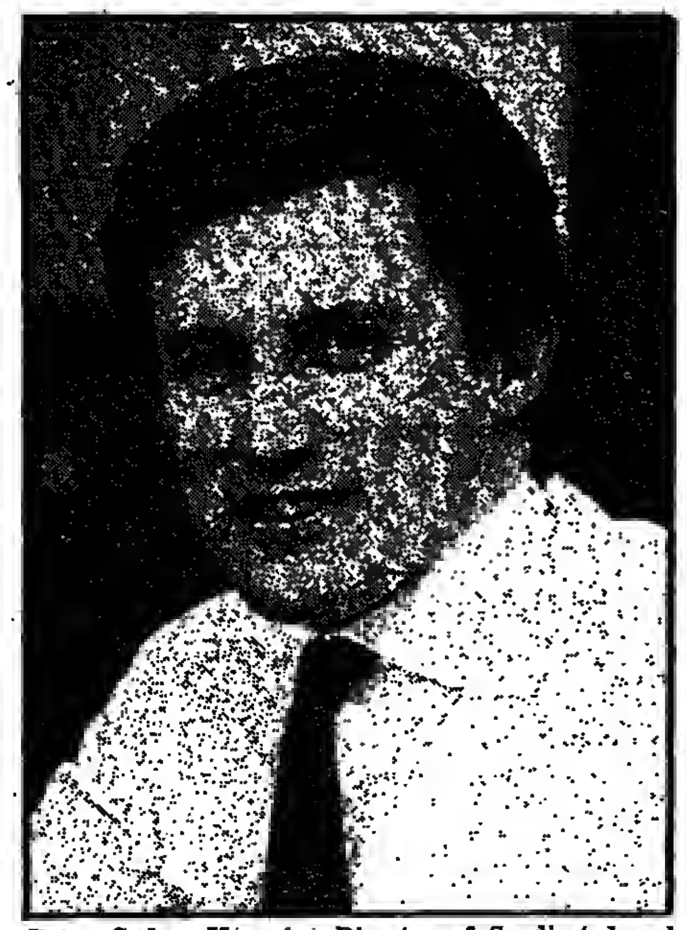
If the market for floating rate instruments was simply pools of capital looking to achieve a floating return then there would be strong arguments for the decrease in the importance of Libor.

Interest rate swaps and similar financing vehicles have been important in reducing the floating rate cost of funds to both U.S. domestic and foreign banks. Foreign banks have also gained access to the U.S. commercial paper market in increasing number, again reducing their cost of funding.

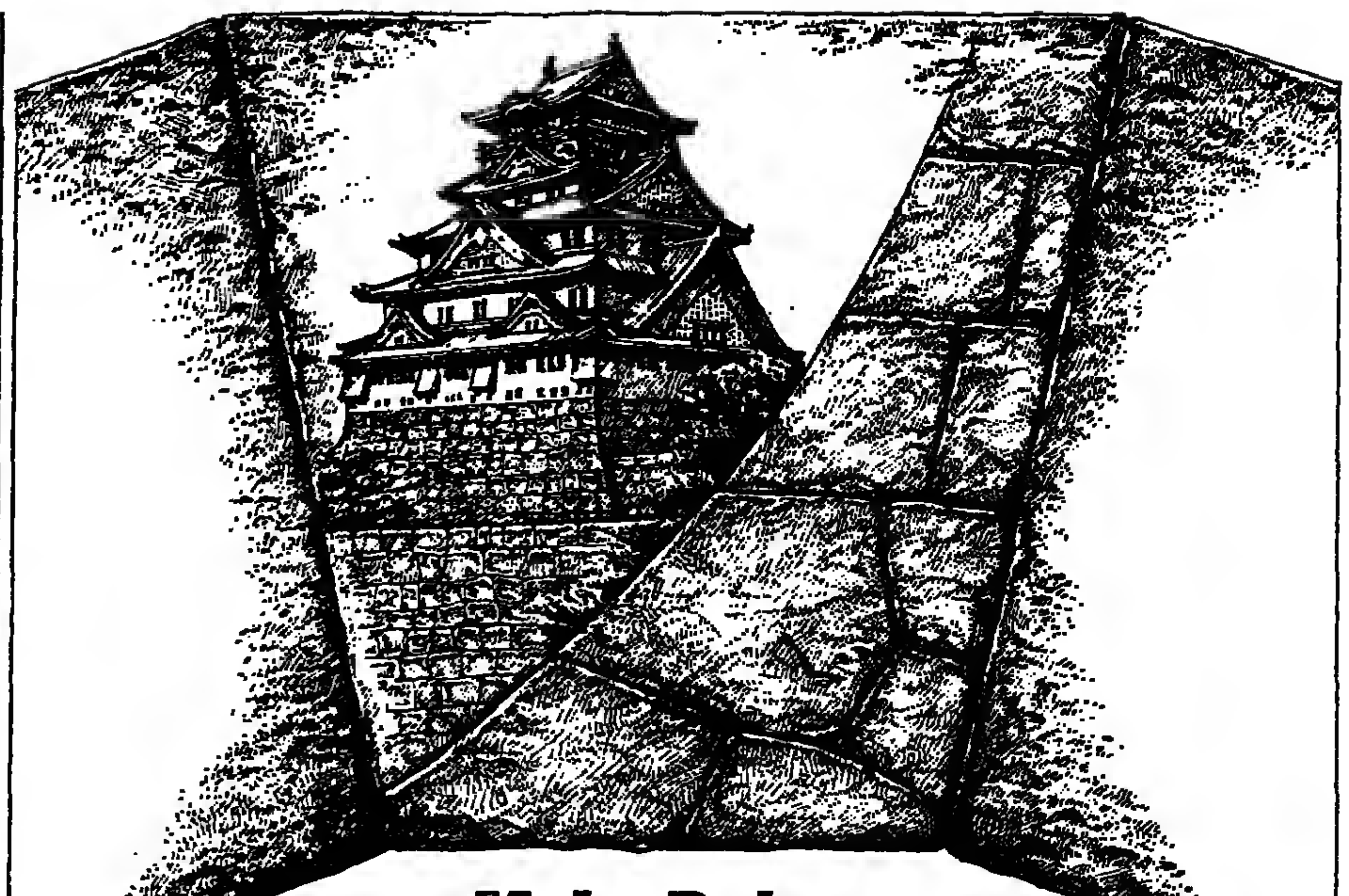
However, the bulk of the funding of non-U.S. banks is still through the interbank which suggests that Libor will remain as an important benchmark.

There is no doubt that the present trend to increase the types of floating rate instruments sold in Europe will increase, particularly for the prime borrowers, but it is too soon to assume that for the vast majority of issuers Libor will not continue to be the important pricing benchmark.

Peter Ogden



Peter Ogden, Managing Director of Syndicated and New Issues at Morgan Stanley International



Developments in New York

March 1985:
New York's Commodity Exchange (Comex) and Sydney Futures Exchange Limited of Australia, sign final agreement to establish an international trading linkage between the two exchanges.
A district court judge freezes all assets of ESM Government Securities, a Miami-based securities trader.

February 1985:
Mellon Bank Corpn. receives permission to open a consumer bank in New York.
Trading in individual stock options on the New York Stock Exchange is authorised by the Securities and Exchange Commission (SEC).
Citicorp bids for Seccombe Marshal and Campion, a UK discount broker.
The New York Federal Reserve Bank proposes voluntary capital adequacy guidelines for government securities dealers.
Marine Midland sells $23m in auto loans "cars" to Salomon Brothers for resale to institutional investors.

January 1985:
The New York Cotton Exchange plans to introduce a U.S. dollar index futures contract.
The New York Stock Exchange in talks with Pacific Stock Exchange on a possible merger.
Treasury begins to offer zero-coupon long-term bonds under its "strips" programme.
Three brokerage firms install automated systems to execute trades in over-the-counter (OTC) stocks.
The Financial Guaranty Insurance Company (EGIC) and Shearson Lehman Brothers announce new secondary market insured bond programme.

December 1984:
New York Stock Exchange 1984 volume totals record $21.2bn.
Salomon Brothers is leading underwriter with $21.2bn in debt and equity issues for 1984.

November 1984:
The Board of Governors of the National Association of Securities Dealers (NASD) permits the expansion of Nasdaq notional market system from 1,102 securities to 2,600.
The Equitable Life Assurance Society to acquire Donaldson, Lufkin and Jenrette.

October 1984:
Comex launches options on silver futures.
Foreign investors bid a total of $4bn for the first ever issue of "targeted" Treasury notes.

September 1984:
Citicorp announces plans to buy Scrimgeour Kemp-Gee and Vickers da Costa, two British stock brokerages.

July 1984:
Shearson Lehman Brothers announces plans to buy full control of L. Messel, a major UK stockbroker.
The New York Stock Exchange begins studying the possibility of 24-hour trading.

June 1984:
Decision is reached by U.S. Senate and House conferences to repeal the 30 per cent withholding tax on interest paid to foreign investors.
Dean Witter Reynolds offers first leveraged buyout fund available for individual investors.

May 1984:
Shearson/American Express announces completion of its acquisition of Lehman Brothers Kuhn Loeb.
Lion Capital Group, a government securities firm, files for bankruptcy.

April 1984:
Salomon Brothers offers record $4.8bn of certificates of accrual on Treasury securities (Cats). Since their introduction in 1982, sales of zero coupon securities have topped $40bn.

Commercial paper outstanding ($m)

End month	All issuers	Financial companies Total	Financial companies dealer-placed Total	Financial companies dealer-placed Domestic	Financial companies dealer-placed Foreign	Financial companies Directly-placed
December 1984	231,760	166,776	57,191	35,964	21,227	109,585
November 1984	238,024	167,044	56,240	34,530	21,710	110,804
October 1984	230,511	160,174	54,055	33,294	20,761	106,119
September 1984	226,736	159,542	52,138	32,276	19,862	107,404
August 1984	220,125	158,358	50,313	30,863	19,450	108,045
July 1984	222,782	160,544	49,676	30,730	18,946	110,868
June 1984	220,594	160,413	50,216	26,418	23,798	110,197
May 1984	215,345	161,474	51,134	30,610	20,524	110,340
April 1984	210,073	156,329	48,370	29,050	19,320	109,376
March 1984	200,365	151,197	46,566	29,648	17,508	104,641
February 1984	193,926	146,753	45,526	28,002	17,524	101,227
January 1984	187,284	142,638	44,082	28,297	15,785	98,556
December 1983	181,348	137,970	41,727	25,834	15,893	96,243
November 1983	182,475	137,297	42,124	26,275	15,849	95,173
October 1983	177,150	132,128	39,134	26,113	13,021	92,994
September 1983	176,125	130,280	39,247	25,463	13,784	91,033
August 1983	172,407	129,375	39,136	26,081	13,055	90,239
July 1983	172,674	128,520	37,927	25,741	12,186	90,593
June 1983	171,642	127,318	38,645	25,296	13,349	88,673

End month	Non financial companies Total	Non financial companies Domestic	Non financial companies Foreign	Bank-related paper Total	Bank-related paper Dealer-placed	Bank-related paper Directly-placed
December 1984	64,984	58,490	6,494	44,140	2,035	42,105
November 1984	70,980	63,777	7,203	42,181	1,996	40,185
October 1984	70,337	63,688	6,649	40,172	2,060	38,112
September 1984	67,194	60,349	6,845	43,025	1,959	41,066
August 1984	61,767	54,866	6,091	45,675	2,010	43,665
July 1984	62,238	55,312	6,926	46,889	1,799	45,090
June 1984	60,181	53,463	6,718	45,904	1,944	43,960
May 1984	53,871	47,054	6,817	48,034	1,696	46,338
April 1984	53,744	47,123	6,621	43,746	1,865	41,881
March 1984	49,168	42,518	6,650	41,384	1,767	39,617
February 1984	47,173	40,907	6,266	38,723	1,765	36,958
January 1984	44,646	38,104	6,542	39,723	2,087	37,636
December 1983	43,378	37,731	5,647	38,007	2,441	35,566
November 1983	43,378	37,731	5,647	37,342	2,341	35,001
October 1983	45,022	39,446	5,576	36,817	2,195	34,622
September 1983	45,845	40,243	5,602	37,159	2,303	34,856
August 1983	43,032	37,677	5,355	37,438	2,353	35,085
July 1983	44,154	38,821	5,333	85,980	2,367	33,613
June 1983	44,324	39,116	5,208	35,612	2,192	33,420

Research associate: Rivka Nechoma.

Sharp competition as business booms

Commercial Paper

PAUL TAYLOR

THE U.S. commercial paper market is booming. At the same time the $240bn markot is boing resbapod by new entrants wbo are seeking to tap it as a source of relativoly cboap finance, and by sharper competition among tbe traditional dealers and others.

Last yoar the volume of outstanding commorcial paper in tbe U.S. incroased by a record $50.4bn to $238.5bn, easily surpassing tbe previous record increaso of $40.4bn set in 1981.

The increase bas been spurred by key factors including:

● The cyclical upturn in business borrowing. As cash reserves ran down corporations turned to tho debt markets to fund cepital spending and other noeds.

"Tbe normal business cycle was a major factor," says Mr Carl Leaman, vice presidont and manager of Salomon Brother's commercial paper activitios.

● The sharply positive sloping yield curve and relativoly large spread betwoen commercial paper and U.5. bank prime rates havo made the commercial paper market an even more attractive alternative, both from long-lorm debt and bank borrowing.

For much of 1984 there was a 300 basis point spread between short and long-term U.S. interest ratos, making short-term borrowing particularly attractivo. In oddition, as Mr Brian Fabri of Salomon Brothers notes, "the spread between commercial paper rates and tho primo rate was especially wide."

● The boom in merger and acquisition activity, much of which has been financed on an interim basis by short-term borrowing in the commercial paper market.

Last year some $70bn to $80bn was raised to fund mergors, acquisitions and leveraged buyouts. In many cases the commercial paper markel provided a "first stop" for funding. Companies used the commercial paper markets before arranging long-term financing, says Mr Roger Lynch, chairman of Goldman Sachs money markets unit.

● Foreign borrowers have begun to tap the U.S. market in search of cheap dollar funding and what Wall Street commercial paper experts, like Mr Lyncb, call "financial pnblic relations" — e way to get a foreign company name known in the U.S. markets.

Foreign companies have only just begun to tap tho U.5. commercial paper market, accounting for around 12 per cent or about $30bn out of tho total at year end. Among the new names introducod to tho commercial peper markets last year wore companies llko Hong Kong's mass transit railway corporation and L. M. Ericsson, which both launcbed initial $1000m paper programmes.

> The commercial banks have also begun looking increasingly enviously at the commercial paper business–spurred in part by the switch by some of their traditional corporate borrowers into this market

Other foreign companies tapping the U.S. market includo o growing contingent of British and Japanese banks and industrial concerns.

Despite a decline in December — the first decline aince July which largely reflected a slight downturn in foreign bank borrowing in the U.S. commercial papor market as the spread between Libor and commercial paper rates narrowed — most analysts bolieve the volume of foreign company commercial paper will continue to grow. "The dealers have gravitatod overseas," says Mr Lynch of Goldmao Sachs.

● Competition for new businoss has spurred deelers to become increasingly innovative, leading to a "broadened" market embracing a wider range of issuers including some "secood tier" companies whose paper is backed by insurance group's guarantees.

"The market has opened up a bit," says Salomon's Mr Fabbri. "Certainly more and more companies seem to be using guarantees," says Mr Leaman. By the end of last year the volume of ontstanding dealer-placed commercial paper backed by guarantees had risen to $17.4bn, from $16bn 12 months earlier. The increasc in guaranteed paper represents a welcome boost to insurance company revenues, typically they charge between 0.25 and 1 per cent for londing their top-notch credit rating to an issuer's paper programme.

● The commercial paper market's flexibility offers particular attractions for companies involved in intorest rate swaps.

These factors are combining to turn the once "olite" U.S. commercial paper market—open only to the best quality domestic corporate industrial and financial borrowers—into a rapidly expanding high-volume business.

This in turn is beginning to have an impact on the structure of the tightly-knit group of Wall Street dealers—led by Goldman Sachs, which has around 30 per cent of the market—who bave long dominated the market.

Two major Wall Street acquisitions, in particular, have changed the "league table" of the major Wall Street dealers. Shearson American Express's acquisition of Lehman Brothers considerably expanded Shearson's oosition in the market, while Merrill Lynch's purchase of Becker Paribus last year—largely spurred by Paribas Becker's expertise in the commercial paper business—has probably made Merrill Lynch the largest commercial paper dealer in the U.S.

Both Shearson and Merrill Lynch are thought to have managed to hold on to most of their new partners' old clients. Bnt, as one senior Wall Street commercial paper expert notes, "the jury is still out." Meantime a few issuers have switched dealers and the "droppings" heve been eagerly snapped up by other market participants.

At the aame time some of the more aggressive and smaller players in the market have begun expanding it through innovative deals, like those of teaming up new clients with bank letters of credit or insurance company guarantees.

Tbe commercial banks have also begun looking increasingly enviously at the commercial paper business—spurrod in part by the switch by some of their traditional corporato borrowers to commercial paper.

Led by Bankers Trust and more recently Citicorp and others, they have actively challenged the rules which bar thom from securities underwriting in the U.S. Last June the Supreme Court ruled that commercial paper is a security—dealing the commerciel banks an apparent major setback. But the banks are fighting back.

In the noxt few weeks the Federal Rescrve Board and the courts are due to rule on another aspect of the key test case involving Bankers Trust which has maintained that it acts as an agent rather than an underwriter in the commercial paper market, bringing buyers and sellors together and collecting a fee for its service.

Even if the banks loose this test case they have already put in place plans to exploit the commercial paper market through other loopholes—like setting up separate subsidiaries to handle their commercial paner activities.

The commercial paper business has turned out to be the latest testing ground for the battered Glass-Steagall Act, but most investment bankers privately concede "The banks are here to stay."

In the meantime most economists expect the U.S. commercial paper market to continue to expand this year—perhaps hy as much as $65bn.

Oil no longer a prime area for secure lending

Energy Loans

CHRIS CRAGG

BACK IN March 1984, Continental Illinois Corporation explained to its shareholders that its energy lending at the end of 1983 amounted to $5.2bn, or more than 17 per cent of total lending. Of these loans $928m were non-performing. The bank added that a further $521m of its energy loans were not classified as non-performing but had principal or interest payments past a deadline of 90 days.

What happened subsequently to Continental Illinois is well known and not a happy experience. What is less recognised is that it was the falling oil price and the U.S. natural gas glut that did most of the damage.

Certainly there is nothing about the present energy market that would suggest it is a prime area for secure lending. The oil price appears uncertain over the next five years, with most forecasts pointing downward.

Gone are the days when banks and oil companies together could underestimate the final cost of the UK Forties field by a factor of three, and yet make up all and more of the potential loss by the increase of the oil price from $12 a barrel to $30 a barrel.

Gone, too, are the days when the Bank of Tokyo, Bank of Montreal, Fuji, Mitsui, Mitsubishi, Credit Lyonnais and CIBC could easily attract other banks into a C$950m limited recourse project loan to Quintette Coal of British Columbia. The Quintette mine's coking coal with a potential output of 5 million tonnes a year was aimed at a Japanese market which vastly over-estimated its growth. Railhaul costs put the coal well above world prices.

At the beginning of the decade, Willard Butcher, the chairman of Chase Manhattan, cheerfully forecast that the oil and gas industry alone would require around $100bn a year for capital expenditure, during the 1980s.

Expensive

At the end of the 1970s, this made a great deal of sense. Offshore production was moving into deeper water. Synfuels as a substitute for oil was the research topic of the year and known to be expensive. Oil from tar sands was another developing technology. Both steam and coking coal volumes were expected to rise as oil was driven ont of the industrial sector's demand.

The U.S. electricity ntilities were still regarded as safe "widow and orphan" investments. Their difficulties with nuclear power costing had yet to be recognised. Energy, in an atmosphere of scarcity, looked like a good investment.

In an atmosphere of glut, energy can still look like a good source of project loan business, providing you can get it. North Sea project finance has been going through a short six month lull just recently; e fact that makes it extremely difficult to judge precisely what conclusions the bankers have drawn about the oil price.

This is not to say that there has been little development activity in the North Sea, far from it, merely that most of it is being funded by the oil companies themselves. Nor does this imply that the banks are worried about such loans and have withdrawn from the battle. On the contrary, until mid-1984, the banks were falling over themselves to provide North Sea project finance.

In doing so, it is generally accepted that they increased tha non-recoursive elements in the loans and made pre-completion loans a standard feature of energy project finance for Norwegian and UK oil. In theory this increased the risks they took in a way that Continental Illinois might not have found acceptable. In practice they were defending their share of a diminishing loan market.

If it seems paradoxical that some banks might appear to be giving easier terms to some energy producing borrowers, just when the outlook for the the energy market looks bleak, it is wiser than it looks. If what has happened in energy project lending over the past can be summarised at all, it is that while the terms of the loans have got easier for certain borrowers, the criterion of choosing the borrower has got e good deal stricter.

In 1979 when oil was projected to hit $35 a barrel in a few years, anyone with reserves could develop them with a project finance provided that they paid the pre-completion costs and agreed—particularly in the U.S.—to a strong element of recourse.

Out of ground

Risk seemed to be tied up in the development costs and the delay arising in getting the oil out of the ground. The developers were frequently prepared to take this risk so the banks could afford to be conservative about terms. Unfortunately the oil price criteria was false and in the U.S. in particular, recourse to the companies assets when payment intervals became extended frequently meant recourse to the oil production project itself because that was all that was available.

The same assumptions ebout the oil price influenced the rest of energy lending by more indirect means. Forecasts of coal demand depended upon it and with demand came prices substantially above those that actually transpired.

Once again the risk for the banks over the eight years of project loan repayment was seen as slow development and tha banks guarded against it, but not against the potential build-up of surplus capacity in the industry.

Precisely when the assumption of rising energy prices faded as an element in bank risk analysis is difficult to say. The Quintette mine agreemant was signed in January 1983. However, tha transition to a collective perception of energy glnt reinforced two other trends in banking opinion.

The U.S. hanks discovered that nuclear power could be very expensive when the Washington Puhlic Power Supply System (WPPSS) defaulted on payments for $2.2bn in bonds in July 1983. While not a project finance funded enterprise, one potentially lucrative target of such lending — nuclear power — disappeared with it.

The other trend was the growth of political risk. As the Organisation for Petroleum Exporting Countries (Opec) increased its grip on the oil market, the major oil companies began to be less integrated and to retreat in their upstream activities to more politically stable parts of the world. The potential supply of large projects in far away places began to decline.

Equally the banks became fearful of the risks of rapid tax changes and expropriation. This too appears paradoxical, because if there is a point in paying a marginally higher rate of interest on project borrowing as opposed to straight corporate borrowing, it is to allow the bankers to take some of the risk.

All too frequently, as with Elf in Angola or Phillips in Ivory Coast, the oil majors wanted project finance in areas of high political risk and had some difficulty finding it.

In comparison, areas like the North Sea with comparatively little political risk attracted large numbers of potential project lenders. But here some majors saw little reason to pay higher margins and funded much of the activity themselves.

The result from the oil industry's point of view was often an attempt to link high political risk project lending with a slice of the North Sea action. The result from the bankers' point of view was to increase competition in project finance in stable areas; hence the increase in limited recourse lending and pre-completion loans.

With project lending on North Sea projects in a period of lull, the future pattern is difficult to read. None the less some bankers are becoming more cautious. While the fall in the oil price itself is difficult, its impact is principally to extend the period of the loan.

The banks specialising in this kind of finance, notably Citicorp, National Westminster, Morgan Guaranty and among the smaller banks, Grindlays, will have run estimates of potential pay back periods based upon far lower prices than those prevailing at present. They will know the parameters of risk.

More crucial is the timing of the point when the whole of the risk falls on the project itself as the loan ceases to be guaranteed against the company.If the oil price calculation is wrong at this point, maybe three years into a new project, then timings can get difficult. While for a large company there really is no such thing as a totally "non-recourse" loan, for smaller borrowers there can be problems.

Larger risk

This pinpoints a risk larger than that of the falling oil price; the problem of taxation. While tax is now lower than it has been in the North Sea, bankers have to assess probabilities in ten years time. Precisely because tax is now low, it is more probable that it will rise than fall.

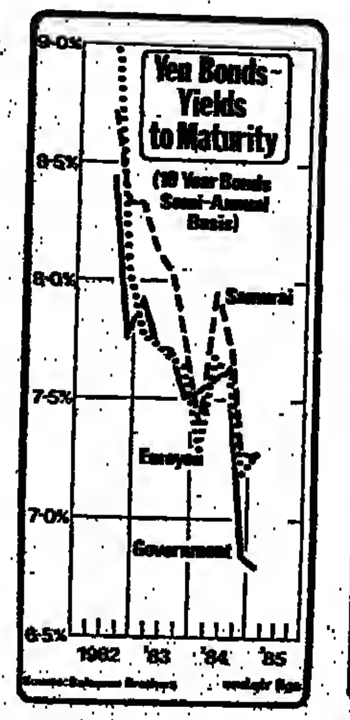
In addition smaller companies, perhaps buying in to fields like Forties and borrowing to do so, make the assumption that much of their petroleum revenue tax (PRT) can be offset against further exploration and development. The PRT bill comes around twice a year.

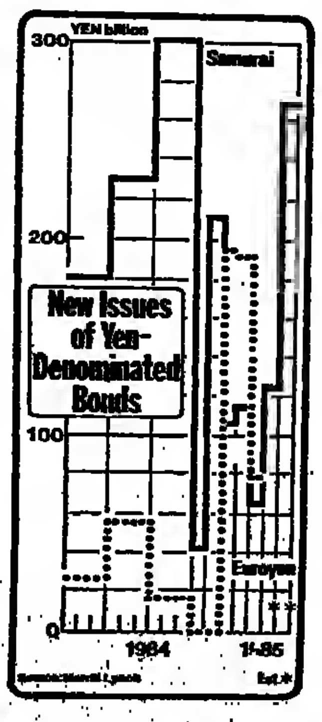
If the major partner in such future development slows down a little, the smaller borrowers can be caught having to pay the bill out of cashflow previously assigned to the banker. Furthermore some of the tax credits created by past development of mature fields are beginning to run out.

This said, it is extremely unlikely that a seasoned oil company will not meet e wide open door when it looks for project finance to lay a little of the risk on the bankers. The energy glut has narrowed down the range of potential projects, but left in some quarters considerahle expertise in energy that the hanks want to use.

Corporate risk is less interesting. Syndicaetd lending can be less profitahle and, as one bankers put it "project finance lending is just more exciting." As BP an dother oil companies move towards "disintermediation" and cut out the banks, some banks are fighting back by acquiring significant oil expertise. Who will take more of the project risk over the next decade is a matter for very detailed negotiation.

Chris Cragg is editor of FT Energy Economist.





Period of change

Yen Bonds

MAGGIE URRY

THE YEN bond markets are going through a period of change. They are gradually being opened up by the Japanese Ministry of Finance, following pressure from the U.S.

Late in 1983 a committee of U.S. and Japanese finance officials was formed to discuss the liberalisation of the Japanese financial markets. A report published in May last year included a step-by-step programme to extend the range of borrowers allowed to tap the bond markets and loosen the rules for making issues.

Changes were planned both for the Euroyen market — bonds issued on the international market — and for Samurai bonds—those launched on the domestic bond market by foreign borrowers.

As a result, the European market — which had been the preserve of top-rated supra-national and sovereign borrowers since opening in 1977 — can now be tapped by a range of corporate borrowers both Japanese and foreign.

Since December 1 1984, when the market was opened to non-Japanese corporate borrowers with at least a single A credit rating, a flood of such issues has appeared, with rivals scrambling to be first in. Most deals have been for U.S. companies, able to swap the proceeds back into dollars at attractive rates.

As a result, the market has become somewhat overloaded with paper, for though the borrowers were ready for the market's opening, there has not yet been a sufficient build-up in investor demand.

While it was expected that the usual Eurobond investors would also buy Euroyen issues, dealers question whether much of the paper has been effectively placed with end investors.

The yen has suffered along with other currencies from the strength of the dollar, which has attracted investors into Eurodollar bonds. Only recently have investors begun diversifying away from dollar investments.

Also Euroyen issues generally offer yields around 7 per cent, which is low by Eurobond standards. Higher yields are available even in the Deutsche-Mark bond market.

Yields on Euroyen issues are lower than in the domestic Japanese bond market, although it is difficult for small foreign investors to deal in domestic issues.

So far Japanese companies have not tapped the Euroyen market even though permission was given to 30 companies to make fixed-rate bond issues, and to 100 companies to make issues convertible into equity.

As yet the Ministry of Finance has not lifted the 20 per cent withholding tax levied on the interest paid on issues from Japanese borrowers. The tax would have to be paid by the borrower, so raising its cost of funds, if investors were to be attracted in. But this tax is expected to be repealed from April 1 this year, and already a number of Japanese companies are lining up to make issues.

The rule changes also allowed non-Japanese securities houses to lead manage Euroyen issues. However, most of the Euroyen issues made so far have been led by one or other of the big four Japanese securities houses. The major European and U.S. issuing houses have made bids for business but have met with little success.

The market has been hampered recently by fears of an increase in Japanese interest rates to support the currency. After the rush of Euroyen issues in December and January, a lull in activity has followed.

Despite the inauspicious start to the more open Euroyen market, bankers are optimistic that the sector will become an important one in the Eurobond market.

The Samurai market has not been killed by the widening of the Euroyen market by any means. As is the Euroyen market, conditions have not been favourable of late, and a number of new issues have been postponed in the last couple of months. However, a record level of issues are expected in April with 10 borrowers due to make issues totalling Y250bn or more.

This market is mainly used by international agencies and sovereign borrowers, although a handful of U.S. companies have issued Samurai bonds. The Ministry of Finance exerts greater control over this market than over the Euroyen market, but this too has been subject to liberalisation moves.

The queuing system, where borrowers had to register with the Ministry for an issue, has been abolished and there is now no maximum size for an issue from a top-rated, AAA borrower. Lesser rated borrowers—down to single A—can also make Samurai issues.

The market has been used by China for its first post-Revolution bond issues. Two deals—a Y20bn issue by the Bank of China in 1984 and a Y30bn issue for China International Trust and Investment in January 1985—should pave the way for that country's rehabilitation in the international bond markets.

Record turnover achieved despite some traumas

Fixed-interest Eurodollar Bonds

MAGGIE URRY

DESPITE some traumas the Eurodollar fixed rate bond market broke all records last year. Not only was new issue volume up from $19.1bn to $27.4bn (according to Merrill Lynch figures) but secondary market trading was at record levels too.

Yet last summer some bankers were predicting the end of the market, following the repeal of U.S. withholding tax. That tax bad been levied on interest payments made to foreign holders of U.S. bands, and its removal, some argued, would entice the buyers of Eurobonds to buy directly from the U.S. and pick up higher yields in the process.

That has not happened yet, and many bankers say it will not happen. The effects of the tax change have been nothing like as monumental as some experts believed—so far. The longer term effects are yet to be discerned.

The tax changes were accompanied by a massive set of new regulations covering Eurobond issues by U.S. companies and tha U.S. Treasury itself. As a result of these, corporate borrowers can now make issues of bearer bnds—bonds where the actual certificate is evidence of ownership and there is no register of holders—direct from the U.S. rather than via an offshore subsidiary.

The regulations have also resulted in the issue by the Treasury and some of the Government agencies, of bonds targeted at overseas investors.

These cannot be made in bearer form but must use a special registration system. Effectively the bondholder is anonymous, but the U.S. Internal Revenue may at some time require proof that the holder is not a U.S. person.

That has deterred many of the traditional buyers of Eurobonds from investing in these "Targeted Treasuries" and the two issues made — far have not met with a good response from end investors.

It remains to be seen whether the programme of overseas sales, which the Treasury committed itself to, will continue on the same basis.

But now the Eurodollar bond market is faced with another threat—the possibility that the rise in the dollar will be reversed. Investors based in currencies other than the dollar have had a honanza over the last few years. Not only have dollar bonds offered high yields—coupons on new issues reached 14 per cent last summer—but there have been spectacular gains to be made by buying the dollar.

Although yields remain in donbla figures, there is the strong chance of a fall in the currency so reducing non-dollar investors' profits. If they turn their buying power to other currency sectors, the number of new dollar issues will have to fall.

Borrowers will have to raise money in other currencies, and use swaps if they need dollars, or else tap the U.S. domestic bond market.

There is no doubt, thongh, that the Eurodollar fixed rata bond market has matured significantly in the last couple of years. The size of issues bas grown—with Salamon Brothers lead managing a $1bn three-tranche issue for the U.S. Prudential Corporation towards the close of 1984.

The techniques of pricing an selling issues hava also become mnch more of a science. And lead managers have had to work harder in designing new ideas to attract investors.

Fierce competition between the issuing houses has pared their profits to the bone. New issues have generally traded at a level where most of tha commission due to the syndicate managers has been handed over to investors.

Even during a period of falling interest rates—such as last autumn — investment bankers ware pushing down new issue yields ahead of the decline in rates. That often meant that paper was left on underwriters' books until market rates had caught up, and the positions could be sold profitably.

In the first months of this year, new issue managers could not even do that. Fears and soma signs of rising interest rates bave led to a "buyers strike." As a result a quantity of new paper, often priced just below the market, remains on underwriters' books.

The investment bankers response is to come up with more imaginative types of issues. These often become fashions for a short while, a series of issues appears carrying the new feature, then the market decides it has had enough, a few last deals are done and meet a poor response, then they fade.

Last autumn saw just one such fad—warrant issues. Even then fears that the dollar's upward trend would reverse encouraged investors to buy debt warrants—a low cost investment which gives the holder the right to buy a bond sometime in the future, usually with a conpon rate close to current market levels.

Adding a warrant to a bond issue not only helped to sell the bond, but added some value to enable a swap to be arranged at a time when swaps were hard to fix.

For a tima nearly every issue came with warrants, and as the market began to tire of them, the warrants became more and more attractive, until one appeared with a 10 year life. Eventually warrant prices crashed and the fashion was dead—for a while at least.

Another short-lived craze was the issue of zero-coupon bonds, where the borrower used the proceeds to buy U.S. Treasury bonds turned into zero coupon bonds by stripping the coupons, which were then sold separately.

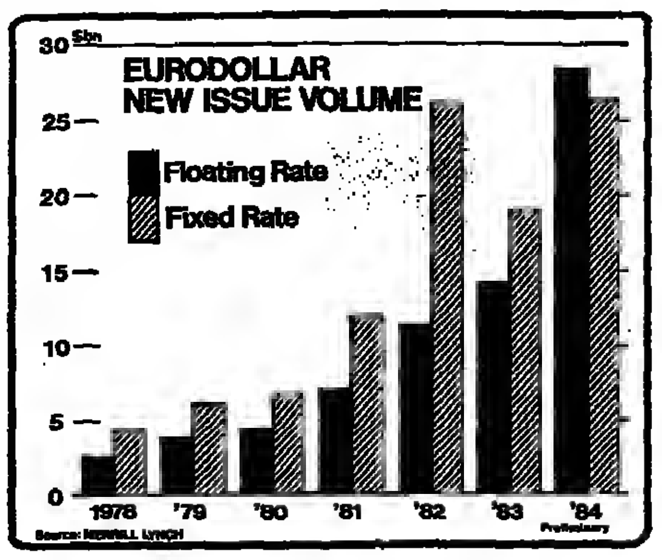
The yields on these stripped Treasuries were often a point higher than those on Eurodollar zero issues, allowing the borrowers to make a tidy profit without putting a hefty bond issue on to their balance sheets.

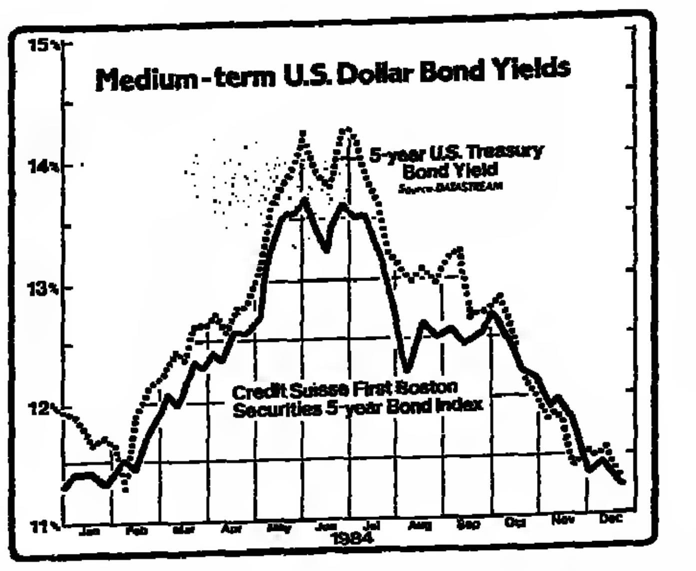
Fashions change fast, and the new season's lines are already beginning to appear. Convertible issues—where the fixed rate bond can be switched into the borrower's shares at a predetermined price — could become a significant part of the new issue volume this year.

Investors can benefit from a rise in the stock market, while still taking a higher yield on the bond than they would on the company's shares.

Another likely trend is the issue of warrants to switch into a bond denominated in a different currency. By setting the exchange rate for the purchase of the new bond at current levels of the dollar, the investor is protected from a fall in the exchange rate.

But nothing will help the fixed rate Eurodollar bond market to a further record year in 1985, if there is a sustained bear market caused by rising interest rates.





Rapid growth and broader appeal

ECU Bonds

MAGGIE URRY

THE EUROPEAN Currency Unit is now one of the most important currency sectors in the Eurobond market. In 1984 the ECU ranked fourth after the U.S. dollar, the Deutsche Mark and sterling in terms of the value of new Eurobond issues raised in the currency. Yet the first ECU Eurobond issue was as recent as 1981.

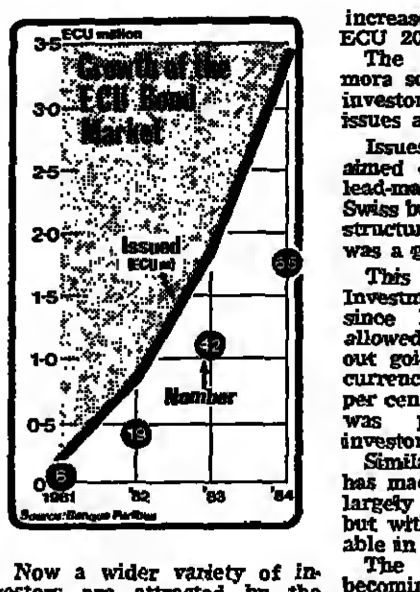
The ECU is the currency unit of the European Comunity, and is a basket made up of the currencies of individual member-states, weighted according to their relative importance in the Community's trade. It was created by the EEC in December 1978 and officially launched in March 1979, becoming the Community's sole unit of account in January 1981. It has, therefore, the official backing of the EEC.

The growth in the ECU bond market mirrors the increasing use of the ECU by the international banking system, and the greater understanding of the unit as a currency which both borrowers and investors wish to use.

The ECU bond market is not simply growing, it is also broadening. The last year has seen many developments in the type of instrument issued, as well as in the kind of borrowers and investors.

The first ECU bond issue was launched in April 1981 for Société Financière pour les Telecommunications et L'Electronique, guaranteed by the Italian state telecommunications agency. The lead manager for the issue, Kredietbank, was able to increase it from ECU 25m to ECU 35m due to strong demand.

Initially buyers of ECU bonds were mainly retail investors in the Benelux countries, and the Belgian and Luxembourg-based banks were dominant in issuing the bonds. The borrowers were mainly European institutions or countries, and the bonds were usually straight-forward fixed rate issues.



Now a wider variety of investors are attracted by the market. Many expect that the strength of the dollar over recent years, may soon reverse or at least stabilise. As a result they are looking for a currency diversification away from the dollar.

ECU bonds offer a much higher rate of interest than Deutsche Mark bonds, the more obvious choice.

Although they have been falling over recent months, yields on ECU bonds are around 10 per cent, compared with some 7½ per cent for D-Mark issues. While the D-Mark is likely to be a stronger performer against the dollar, once the exchange rate trend turns, the ECU as a basket offers a less risky investment than picking out one currency. As the D-Mark forms around one-third of the ECU's value, the ECU largely follows the D-Mark's movements.

Investors in Switzerland and Japan for example have taken a greater interest in the ECU bond market. Institutional investors are also becoming significant buyers of ECU bonds.

An important development, last November, was the first bond issue in the U.S. domestic bond market denominated in ECUs. The issue, for the EEC, attracted good demand and was increased from ECU 150m to ECU 200m.

The main buyers were the mora sophisticated institutional investors in the U.S. More such issues are expected.

Issues have also been made aimed at Swiss investors, and lead-managed by the major Swiss banks. This year an issue structured for French investors was a great success.

This issue, for the European Investment Bank, was the first since French investors were allowed to buy such paper without going through the foreign currency premium. About 80 per cent of the ECU 200m issue was placed with French investors.

Similarly the Italian Treasury has made bond issues in ECUs largely on the domestic market, but with a small portion available in the Eurobond market.

The borrowers, too, are becoming more diverse. Although eight issuers still account for around 40 per cent of the market, and are mostly European institutions, there is an increasing number of other borrowers. French and Italian borrowers, lacking a Eurobond market in their own currencies, are also big issuers of ECU bonds.

Corporate borrowers have made use of the market, such as Heron International, the private UK company, Chrysler and the Japanese Settsu Paper-board. Multinationals with operations in Europe are finding that borrowing in the ECU is simpler than financing their businesses by raising loans in the individual currencies.

As well as fixed-rate bond issues, floating-rate notes are becoming more common in the ECU Eurobond market. There are still only a handful of such issues, floating-rate notes are tional and bank investors coming into the market a greater demand for floating-rate issues is surfacing.

As the market expands and more banks enter the field as lead managers, there is also a more important secondary market in ECU issues. Lead managers tend also to be market makers, but other banks, including British, U.S. and Japanese houses, have started trading ECU bonds. This in itself encourages more investors into the market, ettracted by the improved liquidity.

ECU interest rates are not merely a weighted average of the rates for each individual currency, though they do approximate to that theoretical average. Other factors of supply and demand also influence interest rates. Actual ECU yields have been higher than the theoretical value, but this spread has been narrowing.

Yields on ECU bonds have actually been coming down over the past year and the bond market has been able to cope with the increasing volume of issues quite comfortably.

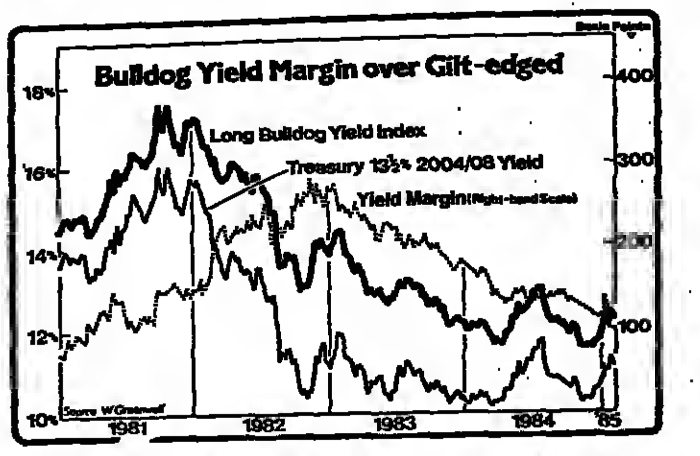
In the last few months of 1984 the market shrugged off the revision of the basket weightings, which included the introduction of the Greek drachma to the system, relatively easily. New issues with open pricings often had their terms set tighter than expected, and the amount raised increased in size.

However, in common with much of the Eurobond market in the early months of this year, the ECU market ran a little ahead of itself and in response new issue coupons, which had gone down to as low as 9½ per cent, have risen again to the 10 per cent area.

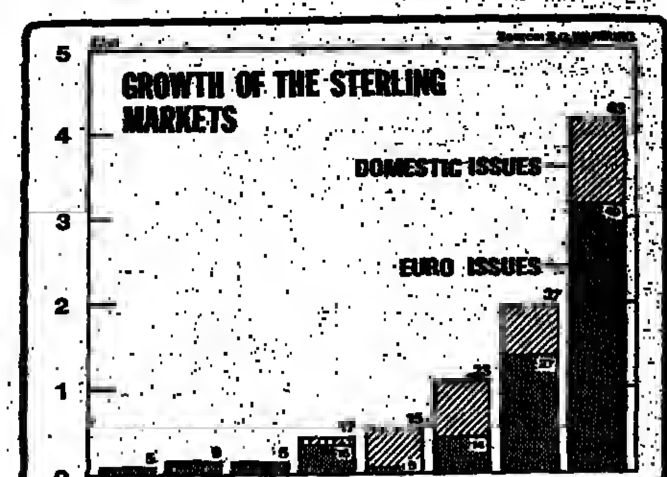
Nevertheless, the market is considered by many bankers to be one of the fastest expanding areas of the Eurobond market.

Composition of the ECU basket (since September 1984)

Currency	% of ECU
Deutsche Mark	32.19
French Franc	19.15
Italian Lira	10.11
Dutch Guilder	10.17
Belgian Franc/ Lux. Franc	8.29
Danish Krone	2.72
Irish Punt	1.21
UK Sterling	14.90
Greek Drachma	1.25



Bulldog yield margins over gilt-edged Treasury 13½ per cent 2004-08 have narrowed as demand for the limited amount of paper has pushed up prices.



Impressive resilience shown

Sterling Bonds

MAGGIE URRY

THE STERLING bond markets bave certainly come of age in the past year or so. Despite the weakening currency the markets have remained open almost continuously to borrowers, while investors often find a shortage of available paper.

Within the overall sterling bond market there are two distinct sectors — Eurosterling issues and Bulldog bonds. Eurosterling bonds, like other Eurobonds, are mainly bought by international investors, often retail investors, and generally have a life in the five- to 10-year range. Borrowers of all types, supra-national, sovereign and corporates both UK and foreign, can tap the market.

Bulldog bonds are those issued by foreign borrowers on the UK domestic bond market, and are traded alongside the UK government bond market. These usually have a much longer maturity — around 25 years and are, by and large, bought by UK institutional investors.

New issues in this market are tightly controlled by the Bank of England which operates a queuing system and imposes a maximum issue size of £100m.

As the UK Government has been unwilling to tap the long end of the bond market, partly to reduce its borrowing costs and also to encourage UK corporates to return to the bond market, institutional investors have turned to Bulldogs for long-term high yielding paper.

As one banker put it "Investment managers no longer say 'Should I have a Bulldog in my portfolio' they say 'How should I structure my Bulldog portfolio'."

Dominant

As a result, the market's perception of the credit risks of international borrowers has matured, and yields on the different issuers' paper reflect more accurately their ratings. Added to that, yield margins over the benchmark gilt-edged stock Treasury 13½ per cent 2004-08 have narrowed as demand for the limited amount of naper haa pushed up prices.

It is now common for a new Bulldog issue to be oversubscribed at issue as investors scramble for the paper. However, bankers are not optimistic that the Bank of England's imposed maximum issue size will be increased. As a result many issues are now priced and documented to allow further tranches of the same stock to be issued to increase the trading liquidity in an individual issue.

The World Bank, for example, issued a second tranche of £100m last August to add to an issue of £100m made the previous November. The two will become one £200m stock in April this year.

The second issue was priced at a finer margin—of 85 basis points compared to 100 basia points—over the benchmark gilt-edged stock.

The queue for new issues is now around a year long, although many borrowers do drop out when it comes to making the issue, allowing others to be promoted in the list.

The first months of this year have seen a virtual halt on Bulldog issues aa sterling's fall has upset the bond markets. An issue for Spain, which had been planned to be launched in mid-January, was delayed when the Bank of England reintroduced Minimum Lending Rate on the day. However, despite a further rise in interest rates and fall in the exchange rate, the issue was successfully launched in February.

Fixed rate Eurosterling bonds from top class borrowers now yield quite a bit less than UK Government bonds with the same maturities. In recent months the sector bas been boosted by heavy foreign buying of the stocks, as investors have looked for alternative currencies to the dollar. Not only is sterling perceived to bave reached bottom against the dollar (although that low keeps moving even lower) but yields in the Eurosterling market are as high as dollar rates.

The market has broadened to include many different types of bonds. As well as the plain vanilla fixed rate issues, convertible issues and bonds with equity warrants have been launched.

The Eurosterling floating rate market has also developed along the lines of the dollar market. Investors are mainly banks with UK branches looking for assets denominated in sterling.

Yields over the benchmark banking interest rate, London inter-bank offered rate, have narrowed and commissions shrunk as borrowers have been able to extract finer terms.

The floater market was used earlier this year for the first bond issue to finance the purchase of UK mortgages. Tha success of the £50m issues, made by a vehicle company incorporated solely for the purpose of investing in a pool of 1,200 residential mortgages, could lead the way to many more such deals.

In the Eurosterling market, too, issue size is restricted to £100m. However, the limit can be circumvented if borrowers attach a tap to their initial borrowing. Lloyds pioneered this route with its floating rate issue last July, which had a £100m initial tranche with a £100m tap.

The sterling bond primary markets are still heavily dominated by the UK banks, with the Bank of England restricting the management of Bulldog issues to British banks. Eurosterling issues can be lead managed by foreign owned banks, if they have an underwriting capability in sterling instruments.

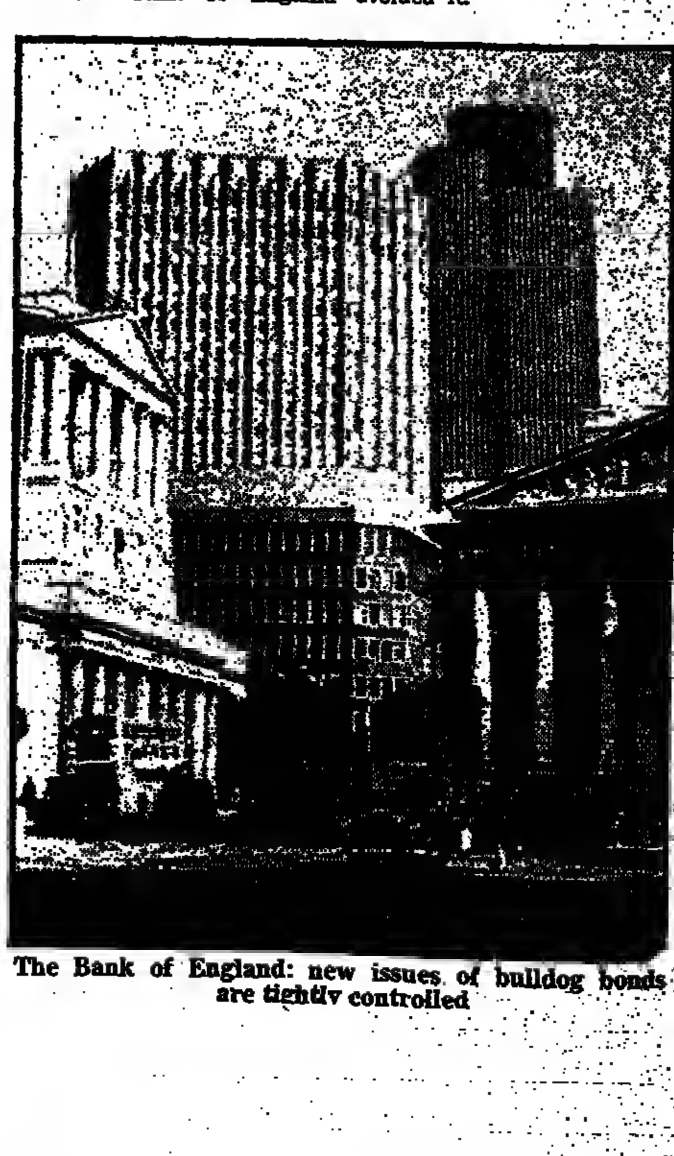
Coming down

Some foreign houses have run the books on Eurosterling issues, though with a British bank as a co-lead manager.

The markets have become more attractive to British investors since the Government brought the capital gains tax treatment of sterling bonds into line with the rules for UK Government bonds. Investors who hold bonds denominated in sterling and listed on a UK stock exchange, which do not have conversion rights, will not pay capital gains tax if the bonds have been held for more than a year. The ruling applies to bonds bought after March 13, 1984.

Eurosterling and Bulldog bonds also have the advantage over UK Government stocks of paying interest gross and not net of income tax.

There seems little doubt that the market for both types of sterling bonds will continue to expand. The market's resilience in the fact of a falling exchange rate and rising interest rates is impressive. Yet the borrowers the UK authorities would most like to see in the market—UK companies — have largely avoided it.



The Bank of England: new issues of bulldog bonds are tightly controlled

Amsterdam Stock Exchange and (right) the foreign exchange dealing room of AMRO Bank

Central Bank's tight rein is eased

Guilder Bonds

LAURA RAUN

THE bankers along Amsterdam's Herengracht canal and across town at the Dutch Central Bank have historically run Holland's capital markets in o cosy, gentlemanly manner reminiscent of s club. But recently Amsterdam-Rotterdam Bank (AMRO) jolted its colleagues by teaming up with Honda Motor Co. of Japan to offer the first-ever equity-linked Euroguilder note.

The novel note issue with two warrants attached signifies a surprising loosening of the Central Bank's tight rein on the Euroguilder market and could lead to even further changes.

The Nederlandsche Bank, the central bank, insists that it will continna to define limits for the Euronota market but a suppler touch is clearly evident.

AMRO's innovative instrument is noteworthy in the Dutch capital market, which still reflects the businesslike, conservative atmosphere emanating from Holland's "golden age" of the 17th century. Many of the stately canal houses which then testified to the business acumen of Amsterdam's burger elite now house Holland'a big banks.

The Nederlandsche Bank works hand-in-hand with the commercial bankers to closely regulate the credit markets in a policy aimed at maintaining the guilder as a strong currency and fostering orderly trading. Capital flows in and out of the Nederlands, bowever, are perhaps the freest on the continent.

Nevertheless, the Central Bank controls the markets for domestic bonds, Euroguilder notes and private placements by approving the size, maturity and timing of most issues. Like tbe Japanese, the Dutch do not want their currency to become so international as to lose control over its valne.

But the Central Bank's paternalistic role is tempered by pragmatism and that is why AMRO was allowed to offer its unique equity-linked Euronote, s competing banker explained somewhat enviously.

Apparent success

Honda floated Fl 100m ($26.32m) of 3¾ per cent five-year notes carrying two warrants, each of which gives the holder the right to buy 241 Honda shares at a price 2¼ per cent above the market price beginning May 8. Given the apparent success of the issue, similar paper seems likely to follow.

Besides carrying warrants, another novel aspect of the Honda note was that a prospectus was issued, even though it was a private placement issue, as are all Euroguilder notes.

In private placements, top-notch banks, brokers and dealers are invited—traditionally by telex—to subscribe and the issue closes when all tha paper is placed.

Moreover, it has been speculated that tha Honda notes themselves may eventually be quoted on the Amsterdam Stock Exchange. In the past the secondary market in Euroguilder notes has been maintained by the lead manager of the issue.

Signs ara that the Central Bank is easing its grip on the volume of the Euroguilder market, which began in 1969. The Nederlandscbe Bank's presumed policy was to allow borrowers to tap the market each year for about one-fifth of the total Fl 8bn in outstanding notes. That is because Euronotes normally carry a five-year maturity so about 20 per cent come due each year. But borrowings surged from Fl 1.98bn in 1983 to Fl 2.3bn last year, where they are expected to atabllise during 1985.

Meanwhile, the domestic bond market continues to ambla along under the overwhelming domination of Dutcb Government loans. The State, wbich does not borrow abroad, accounts for more than 80 per cent of all new public bond issues.

After years of escalating budgeting deficits, the centre-right Government of Prime Minister Rnud Lubbers has finally arrested public spending and reduced the fiscal gap. The budget deficit is expected to narrow to 8.4 per cent of net national income (NNI) this year, from 9.4 per cent last year. The public sector borrowing requirement is forecast to fall olightly from Fl 44.8bn to Fl 44.2bn.

Given the State's marginally smaller borrowing requirement and the improving health of the Dutch economy, there is some bope for an easing in interest rates. The balance of payments surplus on the current account, whicb has ballooned in recent yeors, is expected to rise agaln this year from Fl 15bn to Fl 17bn.

Furthermore, the Dutch savings ratio is notably blgb because of forced savlngs througb mandatory penslon plans. This propensity to save has avoided tbe "crowding-out effect" which often pushes up the cost of money as the Government competes with individuals for credit.

Forced savings

Pierson Heldring Plerson, o merchant bank subsidiary of AMRO, however, predicts tbat the West German bond market will perform better tban the Dutch market this year due to the German Government's sharply falling borrowing requirement.

German bonds and Dutch bonds are usually viewed as alternatives because of the close alignment of their interest rates and currencies. But international interest rates are nearly olways the deciding factor for the wide-open Dutch economy, in which foreign trade makes up more than 60 per cent of gross domestic product.

In recent weeks tha soaring dollar has sharply forced up interest rates in the Netherlands, as in the rest of the world. Moreover, the guilder has weakened significantly in the European monetary system dne to the Nederlansche Bank's more liberal monetary policy than the West German Central Bank.

While Nederlonscbe Bank is sometimes more accommodating in monetory policy than Deutsche Bundesbank, the Dutch Ceotral Bank likes to keep Dutch interest rales in tsndem wlth German rates.

Thus the Dutch discount rate was raised a half percentage poiot to 5½ per cent oo February 1, the first such bike in nearly 1½ years, following West Germany's Lombard-rate increase.

Dutch ioterest rates, however, usually carry a 1-2 percentage point premium over German rates due to the guilder's weaker position vis-a-vis the D-Mark.

Sioce the end of January short-term interest rates hove surged as much as 140 basis points and the Government's latest bond issued carried an 8 per cent coupon, up from 7¼ per cent on the first two offerings this year.

Commercial banks bave imposed a half percentsge point surcharge on their leoding fees and are considering another balf-point rise lf the dollar continues climbing.

This bout of rising interest rates halled the bond market's ascent, which saw tbe Central Bureau of Statistic's bond index recently reacb a record high aloog with the abare market.

The bond market was buoyed by declining rates for much of last year and a feared exodus ont of guilder bonds and into Deutsche Mark bonds never materialised. Market participants had worried that West Germany's repeal of its withbolding tax on D-Mark bonds wonld draw funds out of guilder boods.

Foreign borrowers are much in evidence

Swiss Franc Bonds

JOHN WICKS

SWITZERLAND remains one of the world's most obundant sources of capital. Last year, forelgn Swiss-franc borrowings reached a new record of SwFr 40.94bn—the equivalant of over US$17.4bn at overage dollor exchange rates—and have stayed at a high level during the first two months of 1985.

International borrowers are in evidence particularly in the bond and note markets. In 1984, the amount of new money raised by foreign Swiss-franc bonds jumped to a peak of SwFr 11.15bn. This was more than double that recorded for as recent a year as 1980, as wall as being substantially more than the SwFr 6.9bn accounted for by the corresponding net proceeds (issue sum minus re-finaocing) of domestic flotations.

Even more considerabla are the amounts raised by medium-term notes in the form of private plocements. In this market, a preserve of foreign—ond especially Japanese—borrowers, no less than SwFr 74bn bas been raised in new money over the past five years. There now seems to be something of a stsbilisation, however, and last year's figure of SwFr 19.46bn was rather below the 1983 record.

The remainder of the foreign borrowings total approved by tbe Swiss National Bank is made up of finance and export credits granted by the banks. These fell to o six-year low in 1983 but bave since been picking up, largely as a reflection of the improved world economy.

Indeed, it is not self-evident that the Swiss capital market should go on growing the way it bas. From the investor's point of view, the Swiss franc is much less Immedialely attractive than during the long years of its upswiog; early this year, its trade-weighted exchange rate was at tha lowest level since autumn 1982, while the currency has also lost some of its traditional low-inflation differential.

With bond and note coupons of up to 6¼ per cent, fixed-interest investments still show up well against a 4 per cent inflation rate. However, much better returns are naturally obtainable in the dollar sector, quite opart from the recent massive exchange rate profits.

The Euro-Swiss franc bas also risen with the rest of the Euro-market, while growing competition from within Switzerland itself bas recently included increased rates on time deposits ond the banks' own medium-term, over-the-counter bonds ("Kassenobligationen").

At the same time, Swiss abares have been booming and it seems that not a few major listed companies will ba improving their dividends.

For all tbese rival attractions, both domestic and foreign issues remain in great demand with the interoational investing publlc. Apart from the broad selection of Swiss-franc paper with long and medium-term maturity, there is obviously the conviction that Switzerland'o traditiooal prosperity and the hardness of its currency is worth bocking.

Under-subscriptions seem to he a thing of the past — even though the secondary market for modestly-priced issues is not much to writa home about.

From the borower's point of view, Swiss issues are still relatively cheap and there is no longer the widespread fear of currency losses on redemption.

After long being one of the more conservative markets, the Swiss franc sector now also offers any number of borrowing pattarns, from dual-currency and floating rata issues, through convertible and warrant loans, to sucb exotes as this month's 60-year issue of SwFr 200m by the American company CPC International.

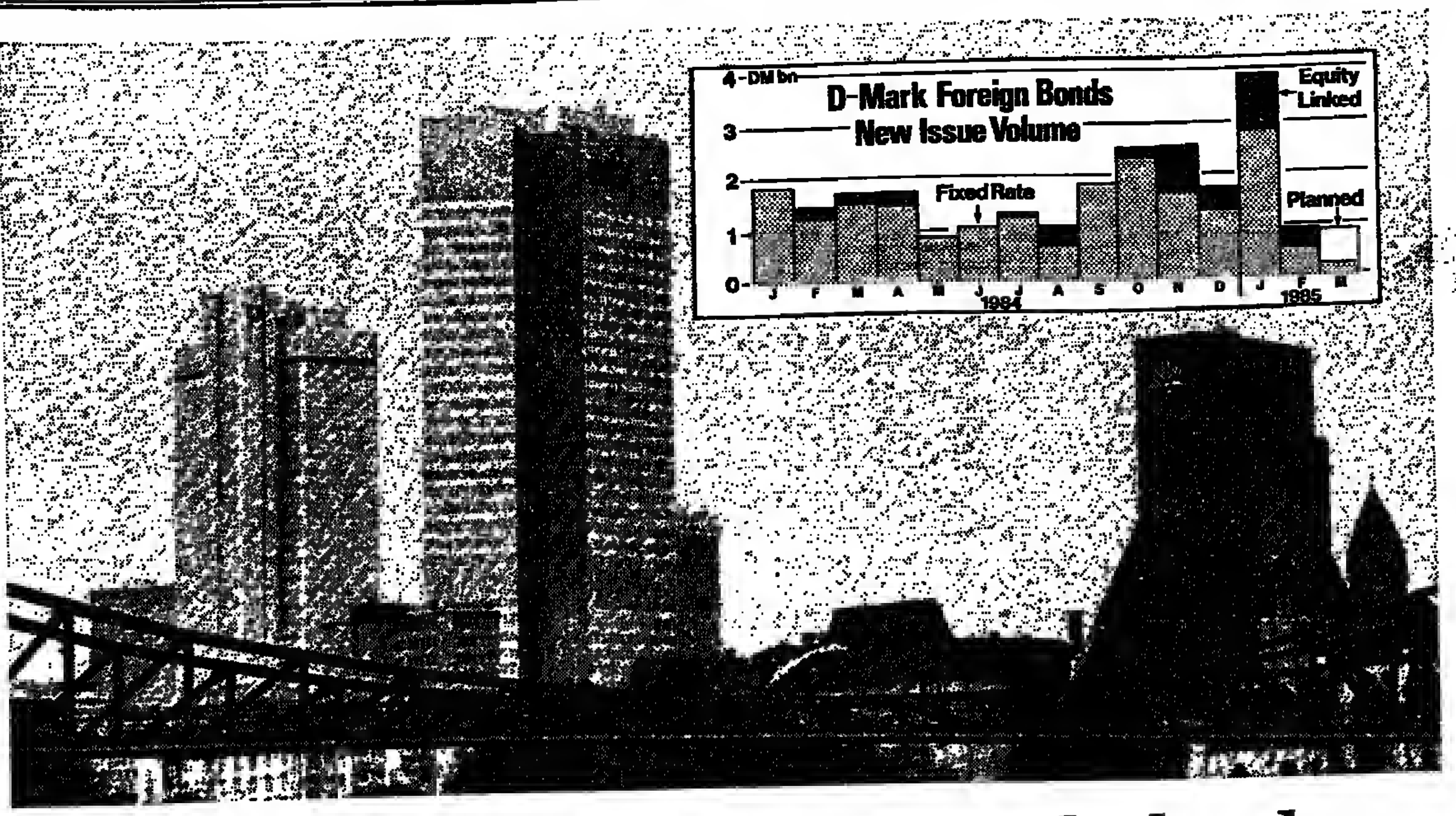
There are some signs that business might be slowing, though. Two potential foreign borrowers hava already postponed bond issues this year so as not to have to pay 6 per cent in wbat might again soon prove an upwardly-mobile currency.

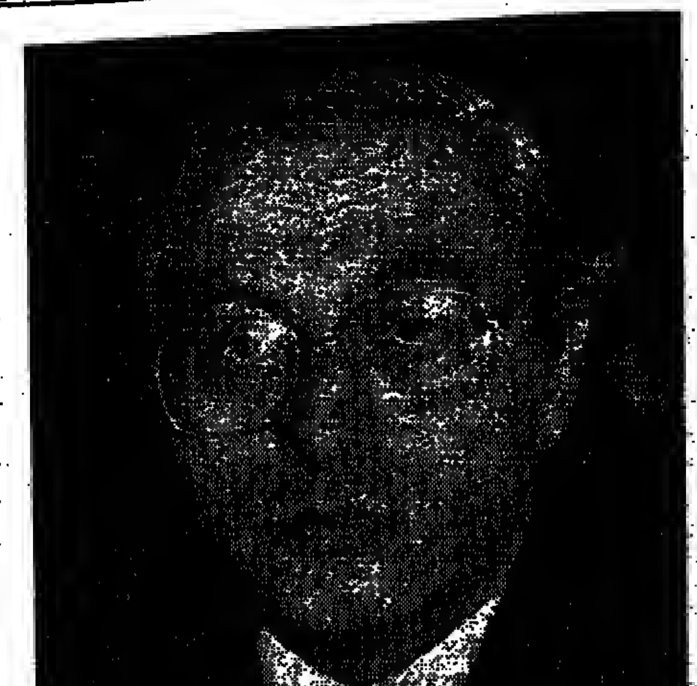
As yet, bowever, there has been no general decline in keenness to borrow Swiss francs; indeed, the Commonwealth of Australia is currently (until March 23) floating a total of no less than SwFr 500m in a two-trancbe private placement.

Whatever the case, the Swiss capital market is hardly threatened by a concentration of bad debts. Domestic creditors are rarely other than copper-bottomed, while foreign borrowers are usually carefully cbosen. (Not all private placement addresses are first-class, but investor risk has been lessened by the improvement of the underwriters' information practices).

An ides of the cautious lending policies of the Swiss is given by latest National Bank statistics. Tbese show that in 1984 almost three-quarters of total foreign borrowings (bonds, notes and bank credits) went to Western industrialised countries and a further 14 per cent to the World Bank and other intarnational development organisations. Only the remaining 12 per ceot was lent to developing and planned-economy countries and the OPEC block.

A foreign exchange dealing room in Zurich





LEFT: The skyline of the banking centre in Frankfurt: the German banks are not keen to open up their market to foreign banks, particularly at a time when new issue volume is being restricted. RIGHT: Herr Karl Otto Poehl, president of the Deutsche Bundesbank, which is beginning to open up the German capital markets in response to the increasing internationalisation of the world's financial system. BELOW: The Bundesbank: one of its first moves toward liberalisation of domestic markets has been the lifting of withholding tax on foreign holders of domestic bond issues

Tight control by the Bundesbank

Deutsche Mark Bonds

MAGGIE URRY

UNLIKE MANY other currency sectors of the Eurobond market, Deutschemark-denominated Eurobonds are still fairly tightly controlled by the financial authorities of the currency's home country.

The restrictions reflect the Bundesbank's desire to maintain control over the currency, a desire which has also slowed the acceptance of the European Currency Unit in West Germany.

However, the Bundesbank is beginning to open up the German capital markets in response to the increasing internationalisation of the world's financial systems. One of the first moves was the lifting of withholding tax levied on foreign holders of domestic bond issues. This repeal followed the same move made by the U.S. authorities last summer.

The withholding — or coupon tax had been at a rate of 25 per cent, effectively discouraging investors from buying domestic bonds. Those investors were the mainstay of the D-mark foreign bond market.

The tax repeal was intended to boost capital inflows to West Germany and so help to maintain the currency's value against the strong dollar. To some extent the move worked and inflows to the domestic markets increased — leaving less money to chase the supply of issues in the foreign bond market.

The D-Mark/dollar exchange rate has continued under pressure however, giving investors another reason to avoid the foreign bond market. In recent months that market has suffered an imbalance between the supply and demand for paper which has pushed interest rates up and resulted, in February this year, in a ban on new fixed rate foreign bond issues.

Whereas in the Eurodollar bond market there is no control over the number, size and timing of new issues, the D-mark foreign bond market has an issue calendar. This is set every few weeks by a sub-committee of the Central Capital Markets Committee.

The sub-committee consists of representatives of the major issuing banks—Deutsche, Dresdner, Commerzbank, BHF Bank, Bayerische Veriensbank, and Westdeutsche Landesbank —plus a senior representative of the Bundesbank.

So when conditions in the market deteriorated badly the sub-committee could call a halt to new deals. The calendar does not, however, include equity-linked issues — convertible bonds and bonds with equity warrants — and some such deals were brought during the new issue moratorium.

The sub-committee is the centre of attention for the Bundesbank's next moves to liberalise the market. At present all the members are German banks, and other German banks must negotiate with these members for a date on the calendar if they wish to lead manage an issue.

Foreign banks, however, even if resident in Germany, cannot ask for a place in the queue and so cannot lead manage foreign bonds issues.

Other countries are opening up to foreign banks though, usually on a "reciprocity basis. If German banks are to move into those markets, the German market must be opened up to banks from those countries.

The major German banks are not keen to have the market opened in this way, particularly at a time when issue volume is being restricted. They argue that allowing foreign banks in would weaken the control over issue timing.

After a year when yields had been falling in the D-mark foreign bond market, the fall has been reversed in the early months of this year. The rising dollar, and an expectation that U.S. interest rates will rise once more, has disturbed the German bond market.

For instance, an issue due to be launched on February 13 for the Inter-American Development Bank, which was postponed when the new issue ban was imposed, reappeared on March 6 with a coupon around ¾ point higher than had originally been expected.

The latest calendar has been set to raise a total of DM 1.2bn through fixed rate issues, about half the monthly average of issues during the autumn last year when the market was strong. January's total of DM 3.91bn, which contributed to the market's overloading and consequent issue ban, came at just the time when the market was weakening.

If foreign banks had been allowed to bring new issues, the amount raised in January might have been yet higher, and the chances of agreeing a halt much lower.

Discussions over the potential changes are at an early stage and action is not likely until later this year.

The authorities have also resisted the issue of bonds with a floating interest rate. The country's low and stable inflation rate has, in the past, limited demand for floaters. But this, too, could change in response to more volatile interest rates.

Going through a sticky patch

Canadian Dollar Bonds

PETER MONTAGNON

CANADIAN dollar issues were last year one of the very few instruments in the Eurobond market that came anywhere near matching the appeal of the mighty U.S. currency. While currency adjusted returns in most major European currencies were negative, holders of Canadian dollar bonds could have earned an overall return in U.S. currency of 9.1 per cent in 1984, according to the U.S. investment house Salomon Brothers.

At the same time the volume of new issues doubled to the equivalent of US$2.2bn, Salomon Brothers states in its annual review of world bond markets. In the first two months of this year new issue volume was also running apace which suggests that last year's total could easily be matched in 1985.

But these figures mask the fact that the Canadian dollar Eurobond market is currently going through a very sticky phase caused largely by the renewed sharp decline of the Canadian currency against its U.S. counterpart.

In early March the Bank of Canada was forced to draw heavily on its standby credit lines from commercial banks to support the currency exchange markets as it neared the psychologically damaging level of 70 U.S. cents.

That coupled with the general oversupply of paper in the Eurobond market left many of the most recent issues languishing at very heavy discounts. Even a recent 12 per cent issue from the European Investment Bank traded down to a discount of some 5 per cent on its 100¼ per cent issue price in the first week of March, suggesting that coupons have some way to rise before the market can take off again.

For the fact is that investor behaviour in the Euro-Canadian dollar bond market has changed over the past year. Traditionally this has been a market dominated by retail investors in the Benelux countries who were attracted by high nominal returns normally exceeding those available in the much larger U.S. dollar sector of the bond markets.

Last year, however, two things happened. First the yields on domestic Canadian dollar bonds dropped below those available on U.S. treasury issues which had the effect of eliminating the coupon differential between the two currencies in the Eurobond market. Second, other investors, who are more currency conscious than those in the Benelux area, latched on to the fact that Canadian dollars offered a high yield alternative to the U.S. currency.

While the Benelux investors who are more coupon orientated backed away, these buyers, mainly in Germany and Austria and to a certain extent in Switzerland, stepped up their purchases of Canadian dollar instruments as part of their diversification out of the overly strong U.S. currency.

Canadian bankers reckon that some 60 per cent of new issues are now bought by buyers in Germany and Austria, 20 per cent by buyers in Switzerland and only around 10 per cent by the traditional buyers in the Benelux region.

That means the new issue market is now above all currency driven, and it explains why the market is now in the doldrums after the latest fall of the Canadian unit.

Secondary market trading continues to show good volume, however, partly because Canadian institutions themselves have become much more active players, seeking arbitrage opportunities between the Euromarket and their own domestic market.

At the same time bankers report growing interest in Canadian dollar bonds from the Far East with Japanese buyers particularly moving into both domestic and Euro-Canadian dollar bonds.

But for this process to accelerate there needs to be a revival of confidence in the currency itself, coupons may have to rise, at least relative to those on U.S. dollar issues, and the market needs time to absorb the glut of issues still hanging over from the start of the year.